

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE MATZIKAMA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Matzikama Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 69 and 72.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009)(DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Matzikama Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Matzikama Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2009-10 financial year, relating to the financial statements of Matzikama Municipality at, and for the year ended, 30 June 2009.

Material under spending of the budget

10. As disclosed in appendix E(2) to the financial statements, the municipality has materially under spent on the capital budget by a total amount of R21,4 million. This is primarily due to the fact that the projects for waste water management and road transport were scheduled to be completed over multiple financial periods and due to the unavailability of land for the water project.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages 50 and 53 to 59 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government: Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act, 2000

Lack of effective, efficient and transparent systems and internal controls regarding performance management

13. The municipality did not implement a documented framework which described and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including a determination of the roles and responsibilities of each role players, as required by section 38 of the MSA, and regulations 7 and 8 of the Local Government: Municipal Planning and Performance Management Regulations, 2001 issued in *GNR.796 of 24 August 2001* (Regulations).

Inadequate content of integrated development plan and service delivery and budget implementation plan

14. The integrated development plan and service delivery and budget implementation plan of the Matzikama Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Regulations.

Audit of performance measures

15. Contrary to section 45(a) of the MSA, the municipality did not develop and implement mechanisms, systems and processes for the auditing of the results of performance measurement as part of its internal audit processes.

Content of annual performance report

16. The annual performance report of the municipality did not include a comparison of the performances with the targets set for and performances in the previous financial year as required by section 46(1)(b) of the MSA. Furthermore, measures taken to improve performance are not included in the annual performance report as required by section 46(1)(c) of the MSA.

Usefulness of reported performance information

17. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:

Planned and reported performance targets not specific

18. The majority of the planned targets of the indicators reported in the service delivery and budget implementation plan were not specific in clearly identifying the nature and the required level of performance as baseline numbers (numerators and denominators) were not specified for targets expressed as percentages.

Reliability of reported performance information

19. The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

20. Adequate explanations for major variances between the planned and the actual reported targets for the selected objectives were not reported as required in terms of the relevant reporting guidance. In total, 100% of the reported targets with major variances had no explanations for those variances.

Reported indicators not reliable when compared to source information

21. For the basic services measurement the actual figures reported in the annual performance report differ from the figures identified from the source documentation provided by the municipality and from the source documentation obtained during the audit.

Reported information differs within the annual performance report

22. The reported information was not consistently presented during the reporting process in the annual performance report as different figures are reflected for the same service in the different tables and graphs in the annual performance report.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act, 2003

23. Contrary to section 15 of the MFMA, which requires a municipality to incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget, the municipality incurred unauthorised expenditure totalling R10,1 million, as disclosed in note 40.1 to the financial statements.
24. As a result of non-compliance with chapter 11, part 1 of the MFMA relating to supply chain management and the Local Government: Municipal Supply Chain Management Regulation (SCM regulations) issued in *GNR.868 of 30 May 2005*, irregular expenditure to the value of R10,3 million was incurred by the municipality. This amount was disclosed as irregular expenditure in note 40.3 to the financial statements, read with note 41.7 to the financial statements. Included in this amount is irregular expenditure of R1,3 million which was detected during the audit of procurement and contract management and which was not detected by the municipality as a result of a different interpretation of the applicability of certain regulations.

Local Government: Municipal Supply Chain Management Regulations, 2005

25. The municipality has not implemented control activities to ensure that officials disclose their financial interests as required by the SCM regulations, read with sections 4 and 5 of the Code of Conduct for Municipal Staff Members.
26. Sufficient appropriate audit evidence could not be obtained that all deviations from the SCM regulations were reported to council as required by section 36(2) of the SCM regulations.

Preferential Procurement Policy Framework Act 5 of 2000 Regulations, GN R725 of 10 August 2001

27. Sufficient appropriate audit evidence could not be obtained to confirm that the 80/20 preference point system was applied in respect of certain tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000, as required by section 3 of the abovementioned regulations or that the 90/10 preference point

system was applied in respect of a tender with a Rand value of more than R500 000, as required by section 4 of the regulations.

Code of conduct for councillors

28. The municipality has not implemented sufficient controls to ensure that councillors declare their or their spouse, partner or business associate's direct or indirect personal or private business interests as required by sections 5(1)(a) and (b) of the code of conduct of councillors.

INTERNAL CONTROL

29. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA, MSA and Local Government: Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.
30. The matters reported below are limited to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

31. The municipality did not implement a documented framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players. Consequently the results of the monitoring process are not routinely communicated to all managers and staff to ensure that employees at all levels of the municipality understand their responsibility with regard to collecting and collating information for the report on predetermined objectives. This has resulted in data collection for reporting on predetermined objectives not being implemented, resulting in incomplete and inaccurate reporting. Actions were also not in all instances taken to address risks relating to the achievement of complete and accurate performance reporting as action plans were not adhered.
32. The accounting officer did not adequately exercise oversight responsibility over compliance with laws and regulations. This is evidenced by the extent of non-compliance reported in relation to procurement and contract management. The municipality's financial management improvement plan did not adequately address compliance with laws and regulations.

Performance management

33. Due to the fact that the municipality did not implement a documented framework, as described in paragraph 31 of this report, adequate processes have not been implemented to ensure that the report on predetermined objectives is accurate and complete and that the actual performance reported in the annual is adequately supported by sufficient appropriate evidence.

Governance

34. The risk of inaccurate and incomplete performance reporting has not been identified by management to inform the focus of the internal audit plan in this regard. Consequently, internal audit's operational audit plan did include a review of the systems and processes underlying performance reporting, nor a review of the documents and information supporting the actual performance that is being reported.
35. Risks relating to procurement and contract management and compliance with laws and regulations that were identified during the risk assessment process were not adequately addressed in the internal audit plan.

Auditor-General

Cape Town

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



The Accounting Officer
Matzikama Municipality
PO Box 98
Vredendal
8160

30 November 2010

Reference: 05104REG09/10

Dear Mr O’Niell

**MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE MATZIKAMA MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2010**

INTRODUCTION

1. This management report is provided in connection with our audit of the financial statements and the audit of the report on predetermined objectives for the year ended 30 June 2010.
 2. The report contains the following main subsections:
 - The Auditor-General’s responsibilities
 - The Accounting officer’s responsibilities
 - Misstatements in the financial statements
 - Matters to be drawn to the attention of the users
 - Other legal and regulatory reporting requirements
 - Information technology systems
 - Specific focus areas
 - Details of significant deficiencies in internal control relevant to the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations
 - Remedial action taken on audit outcomes of prior years
 - Matters that may give rise to future audit findings if not addressed
 - Ratings of the audit findings
 - Summary of detailed audit findings
 3. Annexures A, B, and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management’s responses thereto.
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THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our audit of the report on predetermined objectives. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and the report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report on predetermined objectives. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements and report on predetermined objectives, and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives.
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
 - An emphasis of matter paragraph only to draw the users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements.
 - An additional matter paragraph to draw users' attention to any matter other than those presented or disclosed in the financial statements that is relevant to the user's understanding of the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
 - The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
 - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.

- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
- Monitoring and reporting on performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the financial statements and report on predetermined objectives, such as records, documents and other matters.
- Disclosing all matters concerning any risk, allegation or instances of fraud.
- Accounting for and disclosing related party relationships and transactions.

MATTERS TO BE DRAWN TO THE ATTENTION OF USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2009-10 financial year, relating to the financial statements of Matzikama Municipality at, and for the year ended, 30 June 2009.

Matters important to the users of the financial statements

Material under spending of the budget

9. As disclosed in appendix E(2) to the financial statements, the municipality has materially under spent on the capital budget by a total amount of R21,4 million. This is primarily due to the fact that the projects for waste management and road transport were planned to be completed over multiple financial periods and due to the unavailability of land for the water project.

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Material inconsistencies in other information included in the annual report

10. The draft annual report received from the municipality has been reviewed and no material inconsistencies between the draft annual report and financial statements have been identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should these inconsistencies not be corrected it may result in the matter being included in the audit report.

Unaudited supplementary schedules

11. The supplementary information set out on pages 50 and 53 to 59 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

Report on predetermined objectives

Included below are the findings identified during our audit of the report on predetermined objectives:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA)

Lack of effective, efficient and transparent systems and internal controls regarding performance management

12. The municipality did not implement a documented framework which described and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including a determination of the roles and responsibilities of each role players, as required by section 38 of the MSA, and regulations 7 and 8 of the Local Government: Municipal Planning and Performance Management Regulations, 2001 issued in *GNR.796 of 24 August 2001* (Regulations).

Inadequate content of integrated development plan and service delivery and budget implementation plan

13. The integrated development plan and service delivery and budget implementation plan of the Matzikama Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Regulations.

Audit of performance measures

14. Contrary to section 45(a) of the MSA, the municipality did not develop and implement mechanisms, systems and processes for the auditing of the results of performance measurement as part of its internal audit processes.

Content of annual performance report

15. The annual performance report of the municipality did not include a comparison of the performances with the targets set for and performances in the previous financial year as required by section 46(1)(b) of the MSA. Furthermore, measures taken to improve performance are not included in the annual performance report as required by section 46(1)(c) of the MSA.

Usefulness of reported performance

16. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned and reported performance targets not specific

17. The majority of the planned targets of the indicators reported in the service delivery and budget implementation plan were not specific in clearly identifying the nature and the required level of performance as baseline numbers (numerators and denominators) were not specified for targets expressed as percentages.

Reliability of reported performance

18. The following criteria were used to assess the reliability of the planned and reported performance:
 - Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

19. Adequate explanations for major variances between the planned and the actual reported targets for the selected objectives were not reported as required in terms of the relevant reporting guidance. None of the reported targets with major variances had explanations for those variances.

Reported indicators not reliable when compared to source information

20. For the basic services measurement the actual figures reported in the annual performance report differ from the figures identified from the source documentation provided by the municipality and from the source documentation generated by the auditor.

Reported information differs within the annual performance report

21. The reported information was not consistently applied during the reporting process in the annual performance report as different figures are reflected for the same service in the different tables and graphs in the annual performance report.

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Compliance with laws and regulations

Included below are the findings related to material noncompliance with laws and regulations as indicated.

Local Government: Municipal Finance Management Act, 2003

22. As disclosed in note 40.1, unauthorised expenditure totalling R10,1 million was incurred by the municipality as a result of overspending on the operating budgets for primarily human resources, budget and treasury office, solid waste and roads. This results in non-compliance with section 15 of the MFMA which requires a municipality to only incur expenditure in terms of the limits of an approved budget and in terms of the limits set in the budget for each vote.

Supply Chain Management Regulations, 2005

23. As disclosed in note 41.7, irregular expenditure totalling R9 million was incurred by the municipality as a result of non-compliance with the Supply Chain Management Regulations. In addition to this, irregular expenditure of R1,3 million was detected during the audit of contract and procurement management, which was not prevented or detected by the municipality's internal control activities.
24. The municipality has not implemented control activities to ensure that officials disclose their financial interests as required by the Supply Chain Management Regulations, read with sections 4 and 5 of the Code of Conduct for Municipal Staff members.
25. Sufficient appropriate audit evidence could not be obtained that all deviations were reported to council as required by section 36(2) of the Supply Chain Management Regulations.

Preferential Procurement Policy Framework Act 5 of 2000 Regulations, GN R725 of 10 August 2001

26. Sufficient appropriate audit evidence could not be obtained to confirm that the 80/20 preference point system was applied in respect of tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000, as required by section 3 of the abovementioned regulations or that the 90/10 preference point system was applied in respect of a tender with a Rand value of more than R500 000, as required by section 4 of the regulations.

Code of conduct for councillors

27. The municipality has not implemented sufficient controls to ensure that councillors declare their or the spouse, partner or business associates direct or indirect personal or private business interests as required by sections 5(1)(a) and (b).
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INTERNAL CONTROL

Internal control table

28. The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on significant deficiencies which could give rise to matters included in the auditor's report as the basis for the qualified opinion on the financial statements and for findings on predetermined objectives and compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

Fundamentals of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"
Leadership				
• Oversight responsibility	Yes	Yes	No	Yes
• Tone at the top	Yes	Yes	Yes	Yes
• Action to mitigate risks	No	No	No	Yes
Financial and performance management				
• Quality reliable financial statements and report on predetermined objectives (<i>specific to the report on predetermined objectives</i>)	No	No	No	Yes
• Proper record keeping	Yes	Yes	Yes	Yes
• Adequate systems	Yes	Yes	Yes	Yes
Governance				
• Risk identification	No	No	No	No
• Fraud prevention	No	No	No	No
• Internal audit	Yes	No	No	Yes
• Audit committees	Yes	Yes	Yes	Yes

Achievement of internal control objectives

29. The internal control deficiencies which resulted in the above assessment are summarised below. Additional information on significant internal control deficiencies is included later on in this report.

Findings on the report on predetermined objectives

- **Leadership**

The municipality did not implement a documented framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players. Consequently the results of the monitoring process are not routinely communicated to all managers and staff to ensure that employees at all levels of the municipality understand

their responsibility with regard to collecting and collating information for the report on predetermined objectives. This has resulted in data collection for reporting on predetermined objectives not being implemented, resulting in incomplete and inaccurate reporting. Actions were also not in all instances taken to address risks relating to the achievement of complete and accurate performance reporting as action plans were not adhered.

- ***Performance management***

Adequate processes have not been implemented to ensure that the report on predetermined objectives is accurate and complete and that the actual performance reported in the annual is adequately supported by sufficient appropriate evidence.

- ***Governance***

The risk of inaccurate and incomplete performance reporting has not been identified by management to inform the focus of the internal audit plan in this regard. Consequently, internal audit's operational audit plan did include a review of the systems and processes underlying performance reporting, nor a review of the documents and information supporting the actual performance that is being reported.

Compliance with laws and regulations

- ***Leadership***

The accounting officer did not adequately exercise oversight responsibility over compliance with laws and regulations. This is evidenced by the extent of non-compliance reported in relation to procurement and contract management. The municipality's financial management improvement plan did not adequately address compliance with laws and regulations.

- ***Governance***

Risks relating to procurement and contract management and compliance with laws and regulations that were identified during the risk assessment process were not adequately addressed in the internal audit plan.

Remedial action taken on audit outcomes of prior years

30. The municipality took adequately steps to maintain the good audit outcomes of the 2008-09 financial year. However, actions should also be taken to address not only the material findings arising from the prior year's external audit, but also the control and compliance deficiencies identified in that audit to enable an assessment of the effectiveness of internal control over financial and performance reporting to prevent these matters from escalating in severity in future financial years.

INFORMATION TECHNOLOGY SYSTEMS

General control environment

31. The municipality is heavily reliant on information technology (IT) systems to perform its statutory financial management, reporting and administrative functions. Ineffective information systems controls may contribute to financial management weaknesses, inaccurate financial and performance information and poor performance.

32. Weaknesses were identified in the following areas of the management of these information systems.

Leadership

- ***Change Controls***

The lack of formal change management procedures, change request forms and change approvals for the applications may lead to unauthorised changes to the systems which may compromise the integrity and confidentiality of system data, resulting in system instability and failures.

Programmers implement changes directly into the production environment (via remote access) without being monitored which may result in unauthorised changes being effected in key business systems without being detected.

- ***Security management***

Lack of server baseline security standards may lead to the insecure configuration of operating systems thereby which may lead to access by unauthorised or malicious users.

Password controls on the operating system are not adequately set in line with best practice, which could result in a security breach of the domain.

Audit logs and access violations are not logged or reviewed which may lead to unauthorised access and suspicious user activity going undetected

- ***IT service continuity***

The lack of a disaster recovery and business continuity plan may impact negatively on resumption of business operations in the event of a disaster or disruption of IT operations.

Lack of backup retention policy and scheduled tests of backups may result in backups not being recoverable in the event of disaster which could result in loss of critical data and service disruption.

- ***Facilities and environmental controls***

Physical access and environmental controls were not adequately implemented and reviewed which may lead to damage to the server room and servers, thereby resulting in disruption of service and/or loss of critical data.

Governance

- ***Risk identification and management***

No IT risk and control framework may result in failure to evaluate management's control over IT processes, policies, services and contracts.

The lack of IT risk assessments and an IT risk register may lead to the non identification of events, risks or threats that could impact negatively on the goals or operations of the IT department.

The Information Security policy has not been documented and therefore cannot be enforced, which may result in users who fail to adhere to these policies not being held accountable for their actions.

Information security officer roles and responsibilities are not delegated to a specific individual which may result in the lack of coordination, management oversight and direction for both physical and logical aspects of security, including information security.

Financial and performance management

- ***User access control***

Lack of formal user account management procedures and segregation of duties for the PROMIS, Payday, Cash Focus, Cash Power and Bureau Focus applications, may result in unauthorised access to these financial applications, processing of fraudulent transactions, loss of sensitive information, and possible system down time.

Password controls and parameter settings are not adequately set in line with best practice, which could result in a security breach of the financial applications by unauthorised or malicious users.

Lack of access request documentation may result in users gaining access to functions that are not in line with their job responsibilities, which could lead to the processing of fraudulent transactions and data integrity being compromised.

User access is not periodically reviewed to ensure that it remained commensurate with users' job responsibilities which may lead to users with excessive access to information and functions not being identified.

No monitoring of access violations or users with controller/admin privileges on the financial systems may result in irregular and fraudulent activities going undetected.

SPECIFIC FOCUS AREAS

Significant findings from the audit of procurement and contract management

33. The audit included an assessment of procurement processes, contract management and controls of the municipality which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

Irregular expenditure

34. R10 340 250 of irregular expenditure was incurred in the period as a result of the contravention of the SCM policy and legislation. R1 355 049 (13,1%) of the irregular expenditure were identified during the audit process. Only R8 985 201 (86.9%) was disclosed in the note to the financial statements prepared in accordance with section 125(2)(d) of the Municipal Finance Management Act (MFMA). The incomplete identification and disclosure of SCM irregular expenditure was as a result of different interpretations on the regulations.
35. At date of the report R8 985 201 (26.71%) of the SCM irregular expenditure incurred in the period had been investigated and R8 985 201 (26.71%) was written off by the council as irrecoverable after the investigation. R 511 843 (50,36%) of the SCM irregular expenditure incurred in the previous period had been investigated and R511 843 (50,36%) were written off by the council as irrecoverable after investigation. Council has condoned irregular expenditure of R9 497 044 which was incurred in the 2008-09 and 2009-10 financial year which is contrary to section 170 of the MFMA which requires non-compliance with SCM regulations to be condoned by the National Treasury.
36. Sufficient appropriate audit evidence could not be provided that awards to the value of R261 390,50 were made in accordance with the requirements of the SCM policy and legislation and no satisfactory alternative audit procedures could be performed to obtain reasonable assurance in this regard. The limitations experienced were as a result of inadequate procurement processes followed when expenditure was incurred on the flood damage grant.

Indicators of possible fraud

37. The municipality does not have controls in place to identify possible fictitious suppliers.

Disclosure of deviations and ratifications

38. Deviations from, and ratifications of, procurement processes were incompletely disclosed in a note to the financial statements, as required by SCM regulation 36(2). Such disclosure is an important measure to prevent abuse of the SCM system and ensure the oversight thereof.
39. The incomplete disclosure of deviations and ratifications was as a result of inadequate processes/procedures to identify deviations and ratifications.

Procurement processes and contract management

40. The table below provides a summary of other findings on procurement and contract management as well as limitations experienced in performing the audit procedures relating to the audit findings. It provides an indication on the identified number of instances (#) of findings or limitations and the related rand value of the awards.

Detail	Findings		Limitations	
	#	R- value	#	R- value
Price quotations				
Quotations were accepted from providers who did not have tax clearance from SARS confirming that their tax matters are in order.	1	R42 181		

Detail	Findings		Limitations	
	#	R- value	#	R- value
The preference point system was not applied in the procurement of goods and services above R30 000 through written price quotations.	12	R777 149		
Competitive bidding				
Deviations from competitive bidding were approved on the basis of the goods and services only being produced by, or available from, a sole service provider even though a thorough market analysis was not performed to substantiate this and/or a transparent and equitable pre-selection process was not followed.			1	R261 391
Other findings				
Adequate reasons were not documented for not obtaining 3 quotations and deviating from the Supply Chain Management Policy	15	R165 901		
The Municipality does not have controls in place to check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector	44	R1 641 889		
The reasons for any deviations in terms of sub regulation (1)(a) and (b) was not reported to the next meeting of the council	48	R787 579		
The incorrect preference points system was used for evaluating competitive bids	2	R18 824 942		

Fundamental controls

41. The table below provides a summary of our findings on the significant control deficiencies in procurement and contract management that should be addressed.

Leadership
Annual declarations of interest were not made by the councillors and municipal manager
The SCM policy was in conflict with the MFMA and the SCM regulations as it relates to obtaining tax clearance certificates.
Governance
No risk assessment was performed for the identification, consideration and avoidance of potential risks in the SCM system.
Internal audit did not evaluate the control processes and compliance with laws and regulations with regard to SCM.
Other findings
There is no management review of changes to the supplier banking details masterfile

DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS

LEADERSHIP

Oversight responsibility over reporting

42. The municipality did not have sufficient monitoring controls to ensure adherence to all internal policies and procedures, as well as for purposes of taking corrective action and/or to establish policies and procedures where these do not exist or are inadequate.

Adequacy and competence of personnel responsible for reporting

43. The Municipality does not have the capacity to redirect a person within the municipality with knowledge of applicable accounting standards required to draft a set of financial statements. Consequently, the municipality had to employ consultants to prepare the financial statements submitted for auditing.

Implementation of appropriate key controls (policies and procedures)

44. Key controls and monitoring and evaluation relating to compliance with laws and regulations were not adequately implemented, resulting in a number of findings relating to non-compliance with laws and regulations in respect of contract and procurement management.
-

FINANCIAL AND PERFORMANCE MANAGEMENT

Budget process as well as measurement and achievement

45. The operating budget was exceeded by R10,1 million as a result of inadequate budgetary control and consequent overspending on the operating budgets for primarily human resources, budget and treasury office, solid waste and roads. Furthermore, the capital budget was under spent by a total amount of R21,4 million. This is primarily due to the fact that the projects for waste management and road transport were planned to be completed over multiple financial periods and due to the unavailability of land for the water project.

Late submission of report on predetermined objectives

46. Matzikama Municipality only submitted its report on pre-determined objectives for auditing on 15 September 2010 and not on 31 August 2010. The reason for the late submission was the inability of management to prepare the report on pre-determined objectives in the required timeframe.

Use of consultants in the preparation of the financial statements

47. *Reasons for use of consultants* : The municipality appointed consultants to prepare their financial statements on a contract to the value of R1 345 950 as they were not in a position to redirect a person in the municipality with the required technical expertise to prepare a GRAP compliant set of financial statements.
48. *Assessment of effectiveness of consultants* : For the past two financial years, no or only one material misstatements were detected or had to be corrected on the financial statements. The chief financial officer works in conjunction with the consultants and we are therefore of the opinion that skills transfer is taking place.

GOVERNANCE

Risk identification and management

49. Risks relating to procurement and contract management that were identified as a formal risk assessment process was not undertaken. Therefore the risks relating to procurement and contract management were not included in a fraud prevention plan to ensure that specific measures are identified to prevent and detect fraud in the procurement process.

Internal audit

50. The internal audit focus for 2009-10 lacked adequate focus on the systems and processes underlying the preparation of the financial statements and the report on predetermined objectives, as well as a review of compliance with laws and regulations and procurement and contract management.

REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS

Actions taken by management and those charged with governance to address matters previously reported

51. Ongoing monitoring was also not adequately undertaken on the control findings raised in the prior year's management report, to enable an assessment of the effectiveness of the actions taken by management and those charged with governance to address matters previously reported. If the internal control deficiencies giving rise to the findings in a management report are not addressed, this would result in the severity of the findings increasing year after year.

MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR

Accounting and compliance matters

52. With the implementation of the Standards of GRAP, the municipality experienced difficulties in producing financial statements for audit purposes that were free from errors and omissions, although not in all instances material. This situation may be perpetuated by the introduction of newly approved Standards of GRAP and it is recommended that a comprehensive GRAP readiness assessment be performed and action plan be prepared by the municipality to address this matter.

RATINGS OF DETAILED AUDIT FINDINGS

53. For the purposes of this report, the detailed audit findings included in annexures A, B and C have been classified as follows:

- Matters to be included in the auditor's report.

These matters should be addressed as a matter of urgency.

- Other important matters – deficiencies that could adversely affect the entity’s ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.

These matters should be addressed at the discretion of the entity.

54. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely



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Chairperson of Audit Committee

SUMMARY OF DETAILED AUDIT FINDINGS

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
	PREDETERMINED OBJECTIVES											
1	Lack of implementation of performance management system COMAF 1 on pre-determine objectives		■				■					
2	Inadequate content of integrated development plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) COMAF 1 on pre-determine objectives		■				■					
3	Reasons for major variances between planned and actual reported targets were not explained COMAF 1 on pre-determine objectives		■				■					
4	Internal auditing of performance measurements COMAF 1 on pre-determine objectives		■				■					
5	Comparison with previous year's performance COMAF 1 on pre-determine objectives		■				■					
6	Planned performance targets not specific: Baseline numbers not specified for all targets expressed as percentages in the SDBIP COMAF 1 on pre-determine objectives		■				■					
7	Reported information not reliable: Performance information reported in different reports inconsistent COMAF 1 on pre-determine objectives		■				■					

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
8	Reported information not reliable: Actual performance reported in annual report inconsistent with source data provided COMAF 1 on pre-determine objectives		■				■					
9	Reported information not reliable: Reported information differs in the draft annual report COMAF 1 on pre-determine objectives		■				■					
16	Performance information not reported – Informal settlement households COMAF 1 on pre-determine objectives		■					■				
17	Performance management system - IGNITE COMAF 1 on pre-determine objectives		■					■				
	COMPLIANCE WITH LAWS AND REGULATIONS						■					
10	Unauthorised expenditure COMAF 10 par 3			■			■					
48	Official Website COMAF 10 par 1			■				■				
49	Submission of unauthorised irregular and fruitless and wasteful expenditure reports COMAF 10 par 2			■				■				
	PROCUREMENT AND CONTRACT MANAGEMENT											
50	Reason for deviations not documented COMAF 18 par 1			■				■				

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
11	80/20 principle not applied COMAF 18 par 2			■			■					
51	Tax clearance certificate COMAF 18 par 3			■				■				
52	Restricted suppliers list COMAF 18 par 4			■				■				
53	No requisitions on file COMAF 18 par 5			■				■				
12	Deviations not reported to Council COMAF 18 par 6			■			■					
13	Incorrect use of 80/20 principle COMAF 18 par 7			■			■					
14	Declaration of financial interest COMAF 18 par 10			■			■					
57	Procurement of contracts COMAF 18 par 11			■				■				
15	Declaration by staff members COMAF 18 par 14			■			■					
54	Controls over banking details master file COMAF 18 par 14			■				■				
55	Risk assessment process COMAF 18 par 16			■				■				
56	Internal Audit activities COMAF 18 par 17			■				■				
	PROPERTY, PLANT AND EQUIPMENT											
44	Journals				■			■				

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
45	Physical verification of assets COMAF 20 par 7				■			■				
	CREDITORS											
18	Payment of invoices within 30 days COMAF 5 par 2			■				■				
19	Journals COMAF 5 par 3			■				■				
	CONSUMER DEPOSITS											
20	Consumer deposits not levied COMAF 6 par 1				■			■				
	INVENTORY											
21	Ownership of Land Held for resale and Housing Inventory COMAF 7 par 3				■			■				
85	Fuel losses COMAF 7 par 1				■				■			
86	Cut-off of capturing fuel on PROMIS COMAF 7 par 2				■				■			
87	Valuation and Accuracy of housing inventory register COMAF 7 par 4				■				■			
	REVENUE											
22	Rental Agreement COMAF 8 par 1				■			■				

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
23	Password protection of electronic valuation roll COMAF 8 par 2				■			■				
24	Completeness of valuation roll COMAF 8 par 4			■				■				
25	Service Charges COMAF 8 par 5				■			■				
26	Rental Deposit COMAF 8 par 6				■			■				
27	Internal control weakness: Service Charges COMAF 8 par 7				■			■				
	RECEIVABLES											
28	Delegations for approval of journals COMAF 9 par 1				■			■				
29	Discontinuance of service for Debtors older than 90 days COMAF 9 par 4				■			■				
30	Loan agreements not signed COMAF 9 par 5				■			■				
31	Indigent debtors in arrears COMAF 9 par 6				■			■				
	CASH AND CASH EQUIVALENTS											
32	Cashier Statements are not signed by Head Cashier				■			■				
	STATUTORY FUNDS											
33	Housing Development fund journals COMAF 12 par 2				■			■				

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
	LONG TERM LIABILITIES											
34	Authorisation of Journals COMAF 14 par 1				■			■				
	EMPLOYEE COSTS											
35	Comparison between salary structure and bargaining council COMAF 15 par 1				■			■				
36	Provision for leave – overstatement COMAF 15 par 2											
37	Authorisation for deductions COMAF 15 par 3			■				■				
38	Leave administration COMAF 15 par 4				■			■				
39	Overtime COMAF 15 par 5				■			■				
40	Completeness of employee files COMAF 15 par 6				■			■				
42	Overtime in excess of 30% of gross salary COMAF 15 par 7				■			■				
	VALUE ADDED TAX											
43	VAT Invoices COMAF 16 par 1			■				■				
44	VAT Journals authorisation COMAF 16 par 2				■			■				

Par. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements misstatement	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007-08	2006-07
	EXPENDITURE											
46	Expenditure overstatements COMAF 19 par 1	■						■				
47	Operation leases COMAF 19 par 2	■						■				
	LONG TERM DEBTORS											
58	Overstatement COMAF 17 par 1											
59-84	INFORMATION TECHNOLOGY SYSTEMS				■			■				

ANNEXURE A : MATTERS AFFECTING THE AUDIT REPORT

REPORT ON PREDETERMINED OBJECTIVES

1. Lack of implementation of a performance management system

Audit finding

The Matzikama Municipality did not implement a documented framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

During the audit it was therefore noted that no formally documented processes for collecting and collating data from the original source data to the information reported could be provided.

Internal control deficiency

The municipality does not have documented standardised, formal management policies and operating procedures that adequately address processes pertaining to the collection and collation of performance information for the selected indicators from the point of origin to reporting for the 2009-10 financial year.

Recommendation

The municipality must ensure that standardised, formal written management policies and standard operating procedures are implemented with regard to the collection, collation and reporting of all performance information with the approval process of the IDP for a specific financial year. The existence of the IGNITE system to manage performance information should not be confused with the framework being referred to in the finding. IGNITE is merely a programme which, without proper collection, collation and input, cannot produce information.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

2. Inadequate content of integrated development plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP)

Audit finding

As reported during the previous year the Integrated Development Plan and Service Delivery and Budget Implementation Plan of the Matzikama Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. The SDBIP only include the elements and targets as generated from the IGNITE system.

Internal control deficiency

The municipality did not ensure full compliance with section 26 of the MSA and therefore did not include the national key performance areas and indicators with targets for continuous monitoring during the year and for reporting in the Annual Report.

Recommendation

All national key performance areas and indicators with targets should be included in the IDP and SDBIP for approval by council. This information should be recorded and reported consistently throughout the performance management process.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

3. Reasons for major variances between planned and actual reported targets were not explained

Audit finding

Adequate explanations for major variances between the planned and the actual reported targets as indicated in the SDBIP (as recorded from the IGNITE system) were not reported. Under the five functional areas as recorded on the IGNITE system 25 elements did not meet the target and another 9 elements almost met the target. None of those 34 variances (100%) were explained in the SDBIP and/or in the Draft Annual Report.

Internal control deficiency

No or inadequate controls are in place to ensure that major variances between planned and actual reported performance are explained, as required.

Recommendation

The municipality should ensure that all major variances from the planned output (annual performance plan targets) and actual performance are explained in the annual report.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

4. Internal auditing of performance measurements

Audit finding

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over performance reporting.

Recommendation

The municipality should ensure that internal audit fulfill its responsibilities as set out in legislation and in accordance with accepted best practice and standards. Internal audit should include performance information as part of the risk assessment of the municipality and report to the performance audit committee on the audit work done on predetermined objectives.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

5. Comparison with previous year's performance

Audit finding

The achievements reported in par. 4.1 of the annual performance report prepared by the municipality does not reflect a comparison of the performances with targets set for and performances in the previous financial year in terms of section 46(1)(b) of the MSA. Only the municipal achievements for the current and previous two years were reported. Furthermore, measures taken to improve performance are not disclosed in terms of section 46(1)(c) of the MSA.

Internal control deficiency

The municipality did not ensure full compliance with section 46 of the MSA and therefore did not include the targets and actual performance for the previous financial year in the annual report.

Recommendation

The municipality should include a comparison of the targets and actual performances in the previous financial year with the targets and actual performance in the year under review.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

6. Planned performance targets not specific: Baseline numbers not specified for all targets expressed as percentages in the SDBIP

Audit finding

Most of the planned targets of the indicators reported in the SDBIP were not specific in clearly identifying the nature and the required level of performance. Baseline numbers (numerators and denominators) were not specified for the targets expressed as percentages.

Internal control deficiency

The municipality did not ensure that baseline numbers (numerators and denominators) were specified for all targets in the SDBIP.

Recommendation

The municipality should ensure that baseline numbers (numerators and denominators) are specified for all targets.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

7. Reported information not reliable: Performance information reported in different reports inconsistent

Audit finding

For the following basic service measures the actual figures reported in the draft annual report differ from the figures as identified from the source documentation provided (Category Tariff List) and the source documentation generated by the auditor (Master file from billing) from the PROMIS system of the municipality:

Basic services	Category Tariff list	Master file from billing	Draft Annual Report
Total Households			8947
Water	8600	9092	8553
Electricity	5548	7681	12860
Sanitation	6743	7930	6743
Refuse	8553	8697	8553

Internal control deficiency

Insufficient controls are in place to ensure that the Master file from billing on the PROMIS system correspond with the Category Tariff List. The integrity of the performance information is compromised since it is unclear which source contains the correct information.

Recommendation

The municipality should put the necessary controls in place to ensure that the official data from different sources correspond.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

8. Reported information not reliable: Actual performance reported in annual report inconsistent with source data provided

Audit finding

The source data provided by the municipality does not correspond with the actual performance information reported in the draft annual report for the following indicators:

Measure/indicator	Category Tariff list	Draft Annual Report
Water	8600	8553
Electricity	5548	12860

Internal control deficiency

Insufficient controls are in place to ensure performance information is recorded correctly from the official source data for all performance information.

Recommendation

The municipality should put the necessary controls in place to ensure that the official data is reported correctly in the draft annual report.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

9. Reported information not reliable: Reported information differs in the draft annual report

Audit finding

The reported information is not consistently applied during the reporting process in the draft annual report and reflects negatively on the integrity of the data reported in the draft annual report. The following information has been identified from the reported information:

Reference in the Draft Annual Report	Total Households				
	Households	Water	Electricity	Sanitation	Refuse
Table 61, page 54	8947				
Table 62, page 55		8553	12860	6743	8553
Table 68, page 59	8947				
Graph 7, page 59	8947				
Table 69, page 60	8947 Used for all three years *				
Graph 9, page 61	8947				
Graph 10, page 61				8947 Used for all three years *	
Table 70, page 62 Incorrect year numbers			8063		
Graph 11, page 63 Incorrect year numbers			8063		
Graph 12, page 63 Incorrect year numbers			8063		
Table 73, page 65					8947
Graph 13, page 66					8947
Graph 14, page 66					8947

*Reporting the same HH/user number figure three years in a row means that household remained constant / unchanged for three years and no new sanitation was approved / installed. Reasonably it cannot be agreed that such a situation is a true reflection of the reality, especially when compared to the increase as reported in par. 4.3.2 of the annual performance report.

Internal control deficiency

Insufficient controls are in place to ensure that performance information is reported consistently in the draft annual report.

Recommendation

Quality checks should be implemented to ensure that performance information that is produced by consultants and included in the annual performance report is accurate and complete.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

COMPLIANCE WITH LAWS AND REGULATIONS

10. Unauthorised Expenditure

Audit Finding

It was also identified that the municipal votes for expenditure mentioned hereafter exceeded the limits appropriated to the votes in the approved budget. This overspending was disclosed in note 40.1 to the financial statements as unauthorised expenditure. The incurring of the unauthorised expenditure was due to the mayor not coordinating the budget process as prescribed in section 21 of the MFMA.

Furthermore, this results in non-compliance with section 15 of the MFMA which requires a municipality to only incur expenditure in terms of the limits of an approved budget and in terms of the limits set in the budget for each vote.

Municipal Vote	Total budgeted expenditure (R)	Total actual expenditure (R)	Overspending (R)
Municipal Manager	3 351 731	3 655 389	303 658
Human Resources	4 914 901	6 354 531	1 439 630
Budget and Treasury office	11 281 322	16 026 974	4 745 652
Housing	2 355 876	2 815 053	459 177
Solid Waste	4 209 726	5 799 335	1 589 609
Roads	6 660 960	8 179 608	1 518 648
Total			10 056 314

The unauthorised expenditure disclosed in note 40.1 to the financial statements amounts to R10,1 million.

Internal control deficiency

The mayor did not oversee the budget process and the municipal manager did not develop and implement policies and procedures regarding control over appropriation and compilation of the budget. Furthermore, ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Management should develop and implement policies and procedures to ensure compliance with Chapter 4 : Municipal budgets of the MFMA.

Management response

The AFS will be adjusted to include the correct figures in note 40.1.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Auditor's conclusion

This matter will be emphasized in the audit report and/or included under non-compliance with laws and regulations.

PROCUREMENT AND CONTRACT MANAGEMENT

11. 80/20 principle not applied

Audit finding

The following is stated in Part 2 of the Preferential Procurement Policy Framework Act 5 of 2000 Regulations, GN R725 of 10 August 2001:

"3. The 80/20 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000."

The following payments were tested and it was noted that there was no evidence that the quotations obtained were evaluated according to the 80/20 preference point system:

Repairs and maintenance

R30 000 to R200 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Landis and Gyr	50381	1022848	R 39,852.10
2	JJR Warrior Trucks	44233	1017580	R 48,458.89
3	Barloworld equipment	46348	1018892	R 68,025.03
4	Barloworld equipment	45,790	1019049	R 31,770.50
5	Transtech	48740	1022374	R 60,120.00
Sub total				R 248,226.52

General expenses

R30 000 R200 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Fujitsu Services Pty (Ltd)	45602	1017910	R 152,922.19
2	Fujitsu Services Pty (Ltd)	48407	1020269	R 71,956.80
Sub total				R 224,878.99

Grant expenditure

R30 000 to R200 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	CK Rumboll and Venotte	43961	1019218	R 42,180.00
2	Chennels Albertyn	47990	1020061	R 37,910.68
3	ODS Consultation	48218	1020899	R 36,591.15
4	Business Engineering	43136	1022996	R 136,800.00
5	Fujitsu Services Pty (Ltd)	47972	1021712	R 50,561.20
Sub total				R 304,043.03

On none of the payment inspected (as documented above) was there evidence that the 80/20 preference points system was used to evaluate the quotations received. Price was the only criteria used to choose the winning supplier. In absence of the application of the 80/20 preference point system the municipality might incorrectly allocate business to a supplier. This may be the case in

situations where two suppliers price have very similar price but the one supplier scores points for specific goals or for HDI and the other does not.

Internal control deficiency

- Although management has mentioned the use of the 80/20 preference point system in their policies it has not been implemented in their procurement process for quotations between R30 000 to R200 000. Rather the supplier with the lowest price is chosen.
- *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should implement the use of the 80/20 preference point system for procurement between R 30 000 and R 200 000 as stated by the legislation above.

Management response

We do not agree with your finding.

R 30 000 – R 200 000 (repairs and maintenance):

Landis and Gyr: The total amount payable was R 39 852.10 refer to attached statement. Three invoices (5067005340 – R 17 544.59, 5067005523 – R 17 544.59 & 5067005566 – R 4 762.92) add up to the total of R 39 852.10. The services delivered as per invoices were on three different dates.

JJR Warrior Trucks: Vehicles & Trucks are repaired and maintained by the agent who sold the vehicle or truck to the municipality. The Bid Adjudication Committee authorized the repair of the Warrior Truck. Refer to the “Vervanging van Voertuig Enjin – CV 2095”.

Barloworld Equipment: The total amount payable was R 68 025.03. Amount payable as per statement: R 69 930.55 – R 161.29 (already paid) – 2.5% discount. Four invoices (911794058 – R 7 218.31, 911794059 – R 7 218.31, 920314017 – R 50 438.88 & 920315052 – R 4 893.76) add up to the total of R 68 025.03 refer to the attached statement. Vehicles & Trucks are repaired and maintained by the agent who sold the vehicle or truck to the municipality. The deviation was authorized in terms of Section 35 of the SCM Regulations by the Acting Municipal Manager. Refer to the “Herstel van Padskraper – CV 8299”.

Barloworld Equipment: The total amount payable was R 31 770.50. Amount payable as per statement: R 32 746.50 – R 161.29 (already paid) – 2.5% discount. Eight invoices (911819734 – R 5 061.24, 911819735 – R 679.36, 920319043 – R 4 667.99, 920319048 – R 5 681.48, 911823301 – R 399.00, 911823302 – R 1 140.00, 920320867 – R 14 146.74 & 9203200868 – R 809.40) add up to the total of R 31 770.50. Refer to the attached statement. Vehicles and Trucks are repaired and maintained by the agent who sold the vehicle or truck to the municipality.

Transtech: Quotations were requested from JFD Paneelkloppers, Masjienherbouers, Namaqua Paneelkloppers and Transtech. Only one quotation was obtained. The deviation was authorized in terms of Section 35 of the SCM Regulations by the Municipal Manager. Refer to the “Vervanging van geroesde laaibak en Cab van Dyna Trok – CV 1417”.

R 30 000 – R 200 000 (general expenditure):

Fujitsu Services (Pty) Ltd: Fujitsu is the service provider of the financial system. The deviation were authorized in terms of Section 35 of the SCM Regulation by Municipal Manager.

R 30 000 – R 200 000 (grant expenditure):

CK Rumboll & Venote: The deviation was authorized in terms of Section 35 of the SCM Regulations by the Acting Municipal Manager. Refer to the “Strandfontein Terreinplan: Oorweging van Kwotasies”.

Chennels Albertyn: The original supplier was appointed in 2004 with a tender. The deviation was authorized in terms of Section 35 of the SCM Regulations by the Municipal Manager. Refer to attached documents.

ODS Consultation: The deviation was authorized in terms of Section 35 of the SCM Regulations by the Municipal Manager. Refer to attached documents.

Business Engineering: The deviation was authorized in terms of Section 35 of the SCM Regulations by the Municipal Manager. Refer to the "Aanstelling van Collaborator: Program".

Auditor's conclusion

We disagree with management's comments as there is no evidence that the 80/20 preference point system was applied. This was a finding highlighted in the Provincial Treasury's SCM compliance assessment as well.

12. Deviations not reported to Council EX.80

Audit finding

According to the Supply Chain Regulations as published in the Government Gazette, volume 479, no 27636 dated 30 May 2005, the following is stated in section 36(2):

"The accounting officer must record the reasons for any deviations in terms of sub regulation (1)(a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements."

The following payments were inspected and it was found that the deviation from the procurement process due to lack of quotations were not reported to the council:

Repairs and maintenance

R2 000 to R10 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Weskom	39660	1018875	R 3,175.29
2	Bandkorp	47211	1019215	R 7,921.05
3	WCC Cables	43793	1018916	R 7,895.00
4	Bandkorp	48038	1020040	R 6,900.00
5	Weskus Meganisasie	49685	1022033	R 5,752.78
6	Lutzville Motors and Bande	50019	1022516	R 9,359.40
7	Metropolitan Government Systems	50361	1022581	R 6,640.50
Subtotal				R 47,644.02

R 10 000 to R 30 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Barloworld	45730	1018191	R 13,402.94
2	Lasting Impressions	43755	1017407	R 24,943.20
3	Brand ford Motor Group	44837	1017730	R 10,292.49
4	WCC Cables	43756	1017802	R 18,059.88
5	Abries automative engineering	44859	1017908	R 11,135.52
6	Nissan	44863	1018012	R 24,657.85
7	Lasting impressions Trading 112	43797	1018045	R 22,663.20
8	Vanrhynsdorp Herstelwerke	44585	1018249	R 10,590.39
9	Vanrhynsdorp Herstelwerke	45803	1018685	R 23,290.82
10	Abries automative engineering	46390	1019416	R 18,096.36
11	Vanrhynsdorp Herstelwerke	46423	1018988	R 20,979.42
12	Vredendal Trekkeronderdele	46327	1019445	R 11,235.71
13	JJR Warrior Trucks	47844	1019511	R 8,559.88
14	Barloworld Equipment	46383	1019563	R 12,948.49
15	Barloworld Equipment	47829	1020076	R 12,948.49
16	Brand Nissan	49207	1021732	R 14,470.91
17	Barloworld Equipment	48161	1022068	R 18,381.03
18	Landis Gyr	50364	1022848	R 17,544.59

No	Supplier	Requisition nr	Payment nr	Amount
19	WCC Cables	49959	1022872	R 29,745.45
20	Brand Nissan	48758	1022935	R 11,978.55
Subtotal				R 335,925.17

R30 000 to R 200 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	JJR Warrior Trucks	44233	1017580	R 48,458.89
2	Barloworld equipment	46348	1018892	R 68,025.03
3	Barloworld equipment	45790	1019049	R 31,770.50
Subtotal				R 148,254.42

General expenditure

R2 000 to R10 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Flight Centre	41020	1017302	R 9,600.00
2	Belle Ombre	No requisition attached on file.	1017393	R 5,600.00
3	Samoa Hotel	No requisition attached on file.	1018052	R 5,320.00
4	Fujitsu Services Pty (Ltd)	47967	1019731	R 7,898.27
5	ST Martini Gardens	No requisition attached on file.	1021925	R 3,875.00
6	Hollow on the square	No requisition attached on file.	1019321	R 4,280.00
7	Fujitsu Services Pty (Ltd)	No requisition attached on file.	1022501	R 8,388.37
Subtotal				R 44,961.64

R10 000 to R30 000 Threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	CAB Holdings	44799	1017636	R 27,000.00
2	CAB Holdings	46225	1018499	R 14,934.40
3	Fujitsu Services Pty (Ltd)	45655	1018220	R 24,596.20
4	CAB Holdings	47986	1019802	R 18,779.70
5	CAB Holdings	48477	1021033	R 27,000.00
6	CAB Holdings	49445	1021687	R 12,227.30
7	CAB Holdings	49489	1022131	R 14,277.90
8	CAB Holdings	51116	1022936	R 12,733.70
9	CAB Holdings	50339	1022477	R 14,211.00
10	Fujitsu Services Pty (Ltd)	49498	1022313	R 15,444.42
Subtotal				R 181,204.62

Grant expenditure

R10 000 to R30 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Ignite Advisory services	48221	1021375	R 29,588.70

Internal control deficiency

- The municipality does not have controls in place to ensure the completeness of the spreadsheet that is submitted to council on a monthly basis.
- *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should implement controls to ensure that all deviations from procurement process is reported to the council on a timely basis.

Management response

We do not agree with your finding.

A list of all deviations was captured on excel by Heleen Meyer (Accountant: Expenditure). When Heleen was not available the list was compiled by Christo Kotze (Deputy Director: Expenditure). The list contains the following:

- Date of the requisition
- Name of the supplier
- Requisition number
- Department who requested the service
- Name of the person who requested the service
- Reason why the service was requested
- The amount of the requisition
- Reason for the deviation

At each Council Meeting the list of deviations was submitted as part of the reports prepared by the financial department.

The report forms part of the minutes of meeting of the Council.

Auditor's conclusion

The above transactions could not be traced to the spreadsheets submitted to council. No evidence that the above transactions were on the spreadsheets was submitted to the auditors in response to the finding. This finding will therefore remain in the management report as a non-compliance finding.

13. Incorrect use of the 80/20 principle EX.81

Audit finding

The following is stated in Part 2 of the Preferential Procurement Policy Framework Act 5 of 2000 Regulations, GN R725 of 10 August 2001:

"3. The 80/20 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000."

4. The 90/10 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000."

The following tenders were inspected for audit purposes. It was found that although the Rand value of the tender was above R500 000 the 80/20 preference point system was used instead of the 90/10 preference point system.

Supplier	Tender details and description	Total rand-value of award
Lektratek Water Technology	Upgrading of Vredendal North Wastewater Treatment Works: Mechanical and Electrical Engineering Works: Project Ref nr: 237580KR0	R 5,192,652.43
EMPA Structures	Upgrading of Vredendal North Waste Water Treatment Works: Civil Engineering Works. Project reference nr: 237580VS0	R 13,632,289.90
Subtotal		R 18,824,942.33

Internal control deficiency

- The tender documentation of the above tenders was compiled by the Engineering department and was not reviewed by the Supply Chain Management for compliance to the Supply Chain Management Regulations.
- *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The Supply Chain Management unit should ensure that bid documentation is reviewed before it is issued to bidders.

Management response

Management notes your comments and will adhere to it.

Auditor's conclusion

The above finding will be included in the draft management report as a non-compliance finding.

14. Declaration of financial interest EX.84

Audit finding

According to the code of conduct for councillors the following is stated in section 5(1)(a) and 5(1)(b):

Disclosure of interests

5. (1) A councillor must-

(a) disclose to the municipal council, or to any committee of which that councillor is a member, any direct or indirect personal or private business interest that that Councillor, or any spouse, partner or business associate of that councillor may have in any matter before the council or the committee; and

(b) withdraw from the proceedings of the council or committee when that matter is considered by the council or committee, unless the council or committee decides that the councillor's direct or indirect interest in the matter is trivial or irrelevant.

Upon inquiry from management it was noted that controls have not been implemented for Councillor's to declare their financial interest.

The following financial interest's of councillor's of the municipality was identified during a check on CIPRO:

Name of councillor	Id nr	Member	Active/resigned	Name of company	Registration nr
BOK, PATRIC GERHARDUS	7301205186088	Member	Resigned	KHOISAN INVESTMENTS	2004/106977/23
BOK, PATRIC GERHARDUS	7301205186088	Member	Active	N7 TRADING	2009/223921/23
BOK, PATRIC GERHARDUS	7301205186088	Director	Active	WEST COAST PEOPLE'S VILLAGE	2003/014967/08
CORNELIUS, MALIE	5110220145082	Director	Active	HANDE VAT AGRICULTURAL	2010/005951/24
CORNELIUS, MALIE	5110220145082	Founding Member	Active	HANDE VAT AGRICULTURAL	2010/005951/24
GOEDEMAN, DELINA SUSAN	6005140801088	Director	Active	DE-TUINE AGRICULTURAL	2010/006017/24
GOEDEMAN, DELINA SUSAN	6005140801088	Founding Member	Active	DE-TUINE AGRICULTURAL	2010/006017/24
LOFF, WILLEM DANIEL	5208305010088	Member	Active	MATZIKANA SWEISWERKE	2005/130197/23
SCHOLTZ, DANIEL	6212035275085	Member	Active	PHUTA DITSHABA PROJECTS	2005/023077/23
SMITH, MARIUS JOHAN	5007255061087	Member	Active	BAIEVLEI DIESEL	2008/241188/23
SMITH, MARIUS	5007255061087	Director	Active	LANDELIKE BEVEILIGING	2002/008258/08

Name of councillor	Id nr	Member	Active/resigned	Name of company	Registration nr
JOHAN				WES KAAP	
SMITH, MARIUS JOHAN	5007255061087	Member	Active	STOMPIESKRAAL WATERSKEMA	2010/113266/23
SMITH, MARIUS JOHAN	5007255061087	Member	Active	WATERVAL VELDSKOOL	2008/241186/23

Although none of the above companies was found as a supplier on the database of the municipality, controls should be implemented to have all councillor's to declare their financial interest so that conflicts of interest can be avoided in the future.

Internal control deficiency

- Management has requested the councillors to declare their financial interests annually but councillors have refuse to disclose their financial interests as they are of the opinion that is not relevant to the business of the municipality.
- *Leadership* - Accountability to the public is not emphasised.

Recommendation

Management should implement controls for councillors to declare their financial interests annually.

Management response

The administration will ensure that the necessary forms for the declaration of interest will be completed by all councillors by 1 January 2011

Auditor's conclusion

The findings will be included in the management report as a non-compliance finding.

15. Declaration by staff members EX.88

Audit finding

In accordance with regulation 46(4) and 46(5) of the Local Government Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations, the supply chain management policy of a municipality or municipal entity is required take into account the National Treasury's code of conduct for supply chain management practitioners and other role players. Alternatively a municipality or municipal entity may adopt the National Treasury code of conduct. When adopted, such code of conduct becomes binding on all officials and other role players involved in the implementation of the supply chain management policy of the municipality or municipal entity.

According to the **Code of Conduct for Municipal Staff members** the following is stated:

4. (2) Except with the prior consent of the council of a municipality a staff member of the municipality may not :-

(a) be a party to a contract for –

(i) the provision of goods or services to the municipality; or

(ii) the performance of any work for the municipality otherwise than as a staff member;

(b) obtain a financial interest in any business of the municipality; or

(c) be engaged in any business, trade or profession other than the work of the municipality.

5. Disclosure of benefits

(1) A staff member of a municipality who, or whose spouse, partner, business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality, must disclose in writing full particulars of the benefit to the council.

(2) This item does not apply to a benefit which a staff member, or a spouse, partner, business associate or close family member, has or acquires in common with all other residents of the municipality.

The Municipality has not implemented controls in order for staff members to disclose their financial interests that they have.

According to a search on CIPRO for the staff members involved in Supply Chain Management, the following financial interest's were identified:

Name	Position	ID nr	Member	Company name
Mev JE Warne	SCM	7801220153088	Member	WARNE TAXI
Mnr DGI O' Neill	Municipal Manager	6812315177081	Director	NEW ORDER INVESTMENTS 24
Mnr DGI O' Neill	Municipal Manager	6812315177081	Director	VREDENDAL LOCAL BUSINESS SERVICE CENTRE

Although the above stated companies are not on the suppliers database of the Municipality, controls should be implemented for staff members to disclose their interest annually.

Internal control deficiency

- Management has not implemented controls for staff members to declare their interests in companies.
- Leadership - Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes

Recommendation

Management should implement controls for staff members to declare their financial interests.

Management response

Corporate services will ensure that the declaration of interest forms will be completed by all the SCM unit, senior managers and section 57 managers by 1 January 2011.

Auditor's conclusion

The finding will remain in the management report as a non-compliance finding.

PROPERTY, PLANT AND EQUIPMENT

ANNEXURE B : OTHER IMPORTANT MATTERS

REPORT ON PREDETERMINED OBJECTIVES [EX.67](#)

16. Performance information not reported – Informal Settlement Households

Audit finding

With reference to the Local Government: Municipal Planning and Performance Management Regulations of 2001, section 10 with specific reference to performance indicator “The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal”.

During the audit it was noted that no performance information with regards to informal settlement households has been reported in the draft annual report.

Internal control deficiency

The municipality did not ensure that the necessary information systems are in place to report on all predetermined indicators specified in the Local Government: Municipal Planning and Performance Management Regulations of 2001.

Recommendation

The municipality is receiving an Equitable Share grant from national government which includes funding for informal settlement households. The information as reported in the draft annual report should therefore include detail with regard to informal settlement households.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

17. Performance management system – IGNITE EX.67

Audit finding

During a high level review of the information from the management performance system (IGNITE) as reported in the quarterly reports and draft annual report the following was noted:

- a. It was identified that the national key performance indicators were not included in the IGNITE system in the same format as reported in the draft annual report that is required for specific monitoring and reporting purposes. The national key performance indicators were split into elements per functional area of the municipality for evaluation purposes of the different directorates. The national performance indicators as reported in the draft annual report could therefore not be evaluated as part of the performance management information system.
- b. The targets do not include the numerator and denominator and therefore it is not possible to quantify the targeted performance.
- c. It was noted that although the actual performance of the “Public participation of draft IDP” was reported as 100% in the annual report, it was rated by the IGNITE system as KPI’s not met and this creates a risk about the integrity of the other KPI’s as well.
- d. It was noted from the quarterly reports that some projects were not measured during the year but reported as 100% compliance at year end.

Internal control deficiency

The municipality did not put adequate systems and processes in place to monitor and evaluate the services rendered to them.

Recommendation

The municipality should monitor and evaluate the services provided on an ongoing basis to ensure the credibility of the performance information. Furthermore, the service provider should be requested to incorporate the information referred to in a and b above and to perform a thorough check on the integrity of the system.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

CREDITORS

18. Payment of invoices within 30 days

Audit Finding

Section 65 (2) (e) of the MFMA states: that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribe otherwise for certain categories of expenditure.

We note that the following creditors are not settled within 30 days of receipt of invoice. Furthermore there were no reasons indicated on the invoices for the late payment.

Supplier	Supplier Nr	Invoice Date	Amount R	Payment			Days until settlement
				Ref	Date	Amount R	
JFD Paneelkloppers	115	18/01/2010	2 599.20	1023028	04/08/2010	2 599.20	196.00
Top's Meubels	226	30/06/2010	21 399.75	1023250	25/08/2010	21 400.00	55.00
GW Trautmann	593	28/06/2010	15 362.20	1023099	12/08/2010	15 362.20	44.00
TV3 Architects and Planners	906	28/05/2010	62 700.00	1023004	30/07/2010	62 700.00	62.00
Transtech	1080	30/06/2010	113 369.58	1023251	25/08/2010	113 369.58	55.00
JJR Warrior	2158	17/06/2010	11 823.50	1023009	02/08/2010	11 823.49	45.00
Map Studio	2630	-	7 000.00	-	-	-	-

Internal control deficiency

Leadership-The accounting officer does not exercise oversight responsibility over the compliance with laws and regulations in respect of settling creditors within 30 days of the receipt.

Recommendation

Management and supervisory reviews should be improved to ensure that all creditors are settled within 30 days of receipt of the invoices, as required by section 65(2)(e) of the MFMA.

Management response

Name:

Position:

Date:

Auditor's conclusion

19. Journals EX.36

Audit Finding

Section 79(1) (a) and 3 of the MFMA states that:

“(1) The accounting officer of a municipality –

must, for the proper application of this Act in the municipality’s administration develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality’s financial administration;

(3) A delegation in terms of subsection (1)-

1. (a) must be in writing

The following journals were process on year-end and were approved. However, we could not determine if the appropriate level/delegation approved the journals as no delegation of authority exists on the delegations.

Ref	Description	Amount R
4470	Debiteure Kontrole Rekening Regstelling	110,605.31
4425	Retensies 2009/2010	265,779.14
4425	Retensies 2009/2010	140,312.86
4425	Retensies 2009/2010	281,225.19
4431	Retensies 2009/2010	191,052.35
4425	Retensies 2009/2010	115,104.11
4038	Finansieringskoste Julie/Augustus 2009/10	344,583.68
4093	Finansieringskoste: September/Oktober 2009	808,853.15
4264	Finansieringskoste Maart 2010	146,022.44
4344	Reversal van Jnl 48 2009/2010 - vanaf MIG na DME	1,720,000.00
4200	Allokasie van Fondse	400,000.00
4494	Bedryfsuitgawes ten opsigte van Grants	151,527.58
4391	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	892,870.11
4512	Allokeer korttermyn gedeelte van ABSA lenings	856,658.82
4390	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	293,567.32
4511	Allokeer korttermyn gedeelte van INCA lenings	323,825.56
4389	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	146,992.03
4510	Allokeer korttermyn gedeelte van DBSA lening	162,056.91
4388	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	435,297.93
4509	Allokeer korttermyn gedeelte van DBSA lening	401,076.66
4387	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	471,780.47
4508	Allokeer korttermyn gedeelte van DBSA lening	524,089.39
4410	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	342,540.53
4506	Allokeer korttermyn gedeelte van DBSA lening	377,350.91
4505	Allokeer korttermyn gedeelte van DBSA lening	503,534.69
4411	Terugskrywing van berekende korttermyn gedeelte vir die 2009/2010 finansiële jaar.	360,586.37
4513	Allokeer korttermyn gedeelte van DBSA lening	385,684.97

Ref	Description	Amount R
4504	Allokeer korttermyngedeelte van DBSA lening	919,782.53

The following journals were not authorised and did not have any descriptions to state what they were for:

Journal No	Amount R
4493	188,539.50
4053	820,000.00

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over internal control in respect of the delegations of journals process that is not in writing.

Recommendation

Management must ensure that delegations for the authorisation of journals are compiled and implemented, to give effect to the intention of compliance with section 79.

Management response

Name:

Position:

Date:

Auditor's conclusion

CONSUMER DEPOSITS

20. Consumer deposits not levied

Audit Finding

Section 75(A) of the Municipal systems Act states: General power to Levy and recover fees, charges and tariffs. - A municipality may –

(a) levy and recover fees, charges of tariffs in respect of any function or service of the municipality.

Whilst confirming the completeness of the consumer deposits it was noted that the following 8 out of the 30 debtors did not pay a deposit. Upon inspection of the debtor's accounts on ProMis it was noted that these debtors are in default with their payments.

Nr	Acc nr	Name	Town
1	49736	KJ & E Fortuin	Vredendal
2	238532	P Don	Ebenaezer
3	238853	J Don	Ebenaezer
4	240235	A Dirks	Ebenaezer
5	240644	B Fortuin	Ebenaezer
6	200232	M Swartz	Koekenaap
7	200257	H Owies	Koekenaap
8	200521	M Klaase	Koekenaap

Internal control deficiency

Leadership- *Decisive action to: mitigate emerging risks, implement timely corrective measures:* Actions are not taken to address risks relating to the achievement of complete and accurate financial reporting regarding the charging of deposits to the debtors transferred from the old systems.

Recommendation

Management should revisit the debtors without deposits and levy a consumer deposit.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

INVENTORY

21. Ownership of Land Held for Resale and Housing Inventory

Audit Finding

Upon inspection of the deed search it was found that the following Land held for Resale properties was not in the name of Matzikama Municipality but was as follow:

Town	Plot Nr	Asset Code	Registered as follows:	Location	R
Vanrhynsdorp	1178	PVD1178	Munisipale gebied van Vanrhynsdorp	buitekantstraat	119.53
Vanrhynsdorp	1179	PVD1179	Munisipale gebied van Vanrhynsdorp	buitekantstraat	119.53
Vanrhynsdorp	1201	PVD1201	Munisipale gebied van Vanrhynsdorp	buitekantstraat	63.75
Vredendal	2632	PVE2632	Munisipale gebied van Vredendal	lossandstraat	5,577.88
Vredendal	2633	PVE2633	Munisipale gebied van Vredendal	lossandstraat	5,577.88
Vredendal	2634	PVE2634	Munisipale gebied van Vredendal	lossandstraat	5,577.88
Vredendal	2635	PVE2635	Munisipale gebied van Vredendal	lossandstraat	5,577.88
Vredendal	2636	PVE2636	Munisipale gebied van Vredendal	lossandstraat	5,577.88
Vredendal	2643	PVE2643	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2644	PVE2644	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2645	PVE2645	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2646	PVE2646	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2647	PVE2647	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2648	PVE2648	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	2649	PVE2649	Munisipale gebied van Vredendal	dagbreekstraat	5,577.88
Vredendal	455	PVE455	Munisipale gebied van Vredendal	kristalstraat	3,147.52
Vredendal	457	PVE457	Munisipale gebied van Vredendal	kristalstraat	3,147.52
Total					73 496.41

Upon inspection of the deeds search it was found that the following Land Held for Resale plots was no longer registered in the name of the Municipality as it was sold. However it still appeared on the list as included in the audit file.

Town	Plot No	Asset No	Physical Address	Amount R
Vanrhynsdorp	1270	PVD1270	buitekantstraat	219.13
Vanrhynsdorp	1276	PVD1276	mandelastraat	219.13
Vanrhynsdorp	1285	PVD1285	mandelastraat	219.13
Total				657.39

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Management must ensure the transfer of property to Matzikama Municipality. Management must ensure the removal of properties that are sold and still on the list. Management must ensure plot numbers are identified and registered in the name of the Matzikama Municipality.

Management response

(a) Plot 1271 should not form part of the list as the plot was sold during the year. Refer to your audit query regarding Inventory: Accuracy and Valuation number 2.

The municipality is busy with the process to transfer the plots registered in the name of the previous municipalities to Matzikama Municipality. The process is available for inspection at Annalie van der Westhuizen's office.

Although the plots are still registered in the name of the previous municipalities it is still the ownership of Matzikama Municipality and should therefore form part of Land held for Resale and should be disclosed in the AFS.

(b) We are in agreement with your finding that plots 1270 and 1276 was sold and will revised the AFS.

Auditor's conclusion

Amended AFS are awaited to resolve this finding.

REVENUE

22. Rental Agreement

Audit Finding

Section 95(a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA) states that; the accounting officer of the municipality must ensure that the resources of the entity are used effectively, efficiently, economically and transparently.

We noted that the municipality has entered into rental contracts with tenants for the rental of municipal property.

- (a) Upon inspection of the rental contracts and the payment thereof the following control weaknesses were noted.

Lessee	Acc No	Amount deducted from salary R	Amount charged to rental vote R	Amount according to contract R	Control weakness
L Balie	222645	615	489.12	615	R125.88 is incorrectly paid over to service charges
S.J. Bocks	402341	258.84	216.24	258.84	R42.60 is incorrectly paid over to service charges
A. Claase	85149	343.92	161.34	343.92	R182.58 is incorrectly paid over to service charges
G.S. Makatees	247336	434.10	344.70	434.10	R89.40 is incorrectly paid over to service charges

- (b) The following lessees are not employees of the municipality and upon further inspection it was noted that they are not paying market related rentals.

Lessee	Account No	Amount R
L. Katsio	126282	425.94
J. van Wyk	507489	179.42
M. Basson	130105	275.77

Therefore the income in respect of rental is not accurate.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control regarding the rental charged in respect of municipal land and buildings.

Recommendation

Management should review the agreements and adjust the according to the changes of the lessees'.

Management response

Auditor's conclusion

23. Password protection of electronic valuation roll

Audit Finding

Upon inspection of the electronic valuation roll we noted that unauthorized changes could be effected on the excel spread sheet as the spreadsheet is not password protected.

Furthermore we noted that the valuers did not certify that the electronic valuation roll is the same as the hard copy (property register) of the valuation roll.

Internal control deficiency

Financial and performance management: Adequate financial management systems: General information technology controls are not designed to maintain the security of data regarding password control of the electronic valuation roll.

Recommendation

Management should inform MetValue to install password control on the electronic valuation roll and to certify that the hard copy (property register) includes all the valuations on the electronic valuation roll.

Management response

Name:

Position:

Date:

Auditor's conclusion

24. Completeness of valuation roll EX.25

Audit Finding

Section 23 of the Local government: Municipal property rates Act; No 6 of 2004 states that the municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a Part A and a Part B.

Upon inspection of the property register we noted that property register did not consist out of a part A and B as prescribe in section 23 of the Local government: Municipal property rates Act; No 6 of 2004 therefore we could not determine which properties on the valuation roll is subjected to the following:

- a) An exemption from the rate in terms of section 15
- b) A rebate on or a reduction in the rate in terms of section 15
- c) A phasing-in of the rate in terms of section 21 or
- d) An exclusion referred to in section 17 (1) (a), (e), (g), (h) and (i)

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over compliance with laws and regulations in respect of the splitting of the valuation roll as required by section 23 of the Local government: Municipal property rates Act ..

Recommendation

Management should ensure that the property register is updated to include a Part B that specify properties that is subject to exemptions, rebates, phasing in of rates or exclusions as referred to in section 23 of the Local Government Municipal Property Rates Act.

Management response

Name:

Position:

Date:

Auditor's conclusion

25. Service Charges

Audit Finding

While performing the audit the following has been discovered:

1. The printouts of the meter readings are not kept for use by the audit team performing the audit.
2. Not all the prepaid electricity vendors deposit their daily sales at the cashiers of the municipality - their is some vendors paying late.
3. No estimate is made of the prepaid electricity sold and unused at year-end.

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over reporting and internal control in respect control weaknesses identified in respect of meter readings, timely deposits of pre-paid electricity vendors and an estimation of unused electricity unused at year-end.

Recommendation

Management should implement internal controls in respect the capturing of meter readings, timely deposits by pre-paid electricity vendors.

Management should adjust the AFS to provide for the estimation of prepaid electricity unused at year-end.

Management response

Controls will be implemented to ensure that service charges are controlled correctly and that documents are kept for audit purposes.

A calculation was made for the pre-paid electricity and was disclosed as income received in advance under Trade and Other Payables.

Name: L J BRUWER

Position: CFO

Auditor's conclusion

The implementation of controls will be followed up during the next audit. The correction of the estimate of unused pre-paid electricity has been confirmed.

26. Rental Deposits

Audit Finding

There is no registers kept for deposits received except for Strandfontein.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Introduce a control register which can be reconciled with the general ledger.

Management response

Reasons for deviations could be obtained from Arina Cilliers. An agreement between the Municipality and the debtor was met and therefore his/her service was not rendered.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Auditor's conclusion

The management response does not address the finding and an additional management response must please be provided.

27. Internal control weaknesses: Service charges

Audit Finding

Section 64(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that; the accounting officer must take all reasonable steps to ensure that revenue due to the municipality is calculated on a monthly basis.

The following control weaknesses were identified whilst attending meter readings with the meter readers on 27 October 2010 and comparing that all service are billed to the consumer debtors account according to the physical inspection of building visited.

Erf no	Account no	Debtor	Possible loss in income	Control weakness
1076	616745	Namlam	281 kl x 4.15 per kl = R1166.15	Odometer remained the same at 43670kl from 25 May 2010. The usage for the month billed was zero. The average usage on this odometer is 281kl.
2556	162876	GC&AF Sakko	No calculation – limitation of scope	Could not verify the 3sewerage points as the building plan were not filed in the plot file. The amount billed for the sewerage is R 401.99 for the month.
2436	51358	Indy Sue Pty (Ltd)	R 123 per toilet per month if only 1 toilet = R 1476	1 sewerage connection on building plan and no billed on ProMis. Businesses are billed per toilet.
2705	107152	ESKOM	R 123 per toilet per month if only 1 toilet = R 1476	<ul style="list-style-type: none"> No building plans Physically verify the sewerage connection and none captured on ProMis. Businesses are billed per toilet.
			No calculation because average usage was billed	<ul style="list-style-type: none"> Water odometer 4260kl and the previous meter reading on ProMis 4815. The current meter reading captured on ProMis is 4827kl and the usage billed was 12kl. The average usage is 12kl.
1070	86992	ASH and JD Stemmet	No calculation – limitation of scope	Could not verify the sewerage point as the building plan could not be obtained 1 billed on ProMis. Amount billed is R112.20.
			No calculation because average usage was billed	Water meter illegible. Usage of 28kl billed on ProMis. This is also the average usage. Water meter needs to be replaced.
3769	74757	Finishing Touch Trade	No calculation. The exception in usage only occurred after year end.	The electricity reading of 4788kwh was the same as the reading of the previous month. This consumer uses machinery that cuts granite and this seems not normal that no electricity was used. No electricity was billed for the month. The average usage is 113kwh and the usage billed from July to September was 120kwh.

Erf no	Account no	Debtor	Possible loss in income	Control weakness
1086	46372	Eckloweed	157kl x R4.15 per kl x 12 months = R7818.60	The current reading for water was 6248kl while the previous months reading was 7939kl. No usage was billed. The average usage is 157kl and the last time that usage for water was billed was 10/03/2009.
1539	126846	Vredendal Senior Secondary	21kl x R4.15 per kl = R 87.15	The reading for water was 24864kl while the previous months reading was 25006kl. The reading for October captured on ProMis was 25018kl. Usage of 12kl was billed and the average usage is 33kl.
1539	581073	Weskus Kollege	No calculation because billing was in line with average usage	The reading for water was 18349kl while the previous month's reading was 21028kl. The reading for October captured on ProMis was 21079kl. Usage of 51kl was billed and the average usage is 49kl.
2485	51728	Griekwa Kerk	No calculation because billing was in line with average usage	The electricity and water could not be read because the premises is closed and the debtor does not want the meter readers to climb over the fence. 48kl of usage for water was billed and the average is 38kl. 121kwh of usage for electricity was billed and the average is 134kwh.
			R50 x 2 x 12 = R 1200	The amount of sewerage points according to the building plans are 6 but only 4 points are billed on ProMis. The amount billed R219.97
464	224096	HA Basson	No calculation – limitation of scope	The building plan could not be obtained in the plot file to verify the amount of sewerage points. The billing processed on ProMis was for 1 point and the amount is R 112.20.
1271	641798	JL Booysen	No calculation – limitation of scope	The plot file for plot 1271 could not be obtained to verify the amount of sewerage points. As on 27 October 2010 no billing is done on the debtors account. The service is not yet connected because the building must still be finished.
384/200	596489	W Louw	No calculation – limitation of scope	The plot file could not be obtained to verify the amount of sewerage points. On ProMis the property is a farm and thus there will be no connection to the municipal sewerage.
1097	535574	HJ Rosant	No calculation – limitation of scope	The plot file for plot 1097 could not be obtained to verify the amount of sewerage points. The points billed on ProMis is 1 and the amount is R112.20.

Erf no	Account no	Debtor	Possible loss in income	Control weakness
1984	47746	Metodiste Kerk	No calculation – limitation of scope	No building plan could be found in the file of plot 1984. The points billed on ProMis is 1 and the amount is R54.99.

Furthermore it was noted that the number of the water meters were not captured on ProMis therefore we could not determine if the correct meter was read.

Also refer to the control weaknesses identified at finding no. 29.

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over reporting and internal control in respect of the services billed and the actual services rendered to the erven.

Recommendation

Management should ensure that services billed are the same as the services supplied to the consumers.

Management response

Name:

Position:

Date:

Auditor's conclusion

RECEIVABLES

28. Delegations for approval of journals

Audit Finding

Section 79(1) (a) and 3 of the MFMA states that:

“(1) The accounting officer of a municipality –

must, for the proper application of this Act in the municipality's administration develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration;

(3) A delegation in terms of subsection (1)-

(a) must be in writing

The following journals were process on year-end and were approved. However, we could not determine if the appropriate level/delegation approved the journals as no delegation of authority exists on the delegations.

Description	Amount R	Journal No	Date processed	Post level and person approved
Debiteure kontrole rekeninge restellings	6 784 420	4470	17 Aug 2010	Deputy Director: Finance: JC Kotze
Voorsiening van slegte skulde	4 351 085	4552	24 Aug 2010	Deputy Director: Finance: JC Kotze

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over internal control in respect of the delegations of journals process that is not in writing.

Recommendation

Management must ensure that delegations for the authorisation of journals are compiled and implemented, to give effect to the intention of compliance with section 79.

Management response

Name:

Position:

Date:

Auditor's conclusion

29. Discontinuance of services for Debtors older than 90 days

Audit Finding

The Credit Control Policy Paragraph 4.1.1 states that the services must be disconnected on debtors in arrears.

Services for the following debtors older 90 days was not discontinued:

			Balance Older than	Amount Outstanding
	Debtor	Account Nr	90 days	on 30 June 2010
1	IR Arendse	38011	856.98	10,320.73
2	B Irion	45594	649.91	11,119.81
3	CJ de Villiers	53066	572.86	16,276.11
4	Transnet	27186	459.62	23,327.50
5	P Don	238532	119.41	4,207.58
6	J Don	238853	10.02	1,183.30
7	A Dirks	240235	151.21	4,920.79
8	B Fortuin	240644	210.43	10,437.87
9	M Swartz	200232	549.11	12,890.99
10	H Owies	200257	479.73	26,059.64
11	M Klaase	200521	491.32	6,869.83

Management did not adequately enforce the municipality's Credit Control and Debt Collection Policy to prevent the deliverance of services to debtors who's accounts are older than 90 days.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Management should implement controls to ensure that when debtors' accounts are older than 90 days that a notice of discontinuance be issued to the debtors or subsequently that the services rendered be discontinued.

Management response

Name:

Position:

Date:

Auditor's conclusion

30. Loan agreements not signed

Audit Finding

Refer to credit policy paragraph 3.2 stating that arrangements must be signed by the debtor and the municipality. The following 2 arrangements were not signed :

	Debtor	Account Nr	Amount Outstanding	Monthly Payments	Date
			(Loan Amount)	per agreement	
1	C Fortuin	102637	R 474.18	R40 + services account	01/02/10
2	E Maarman	61211	R 1 001.21	R42.10 + services account	10/03/10

Management did not enforce the Credit Control and Debt Collection Policy.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Management must implement procedures to ensure that debtors who enter into arrangement with the municipality for payment terms of their arrear debt meet the provisions of the arrangements. If the debtors do not meet the provisions the municipality must deal with them regarding the discontinuance of services or any other measures to be taken according to the Credit Control and Debt Collection Policy.

Management response

Name:

Position:

Date:

Auditor's conclusion

31. Indigent debtors in arrears

Audit Finding

The Credit Control Policy paragraph 3-10-5.10 states that water restricted meters will be installed when registered indigent users exceed the monthly subsidy of 12kl of water.

The indigent debtors accounts are not restricted to use only the limit of 12kl granted. The debtors have unrestricted access to the water and in 3 instances the excess of 12kl are not paid see the following accounts:

Debtor	Debtor No.	Billing date	Water usage	Account status
KC Joseph	629110	13/03/2010	used 20kl .	Account in arrears
AG Frisley	233781	30/04/2010	used 91kl.	Account in arrears
K Miggel	231689	30/04/2010	used 27kl.	Account in arrears.
JJ Owies	56268	30/04/2010	used 14kl.	Account up to date
J Opperman	46421	30/04/2010	used 18kl.	Account up to date
J Parring	409996	30/04/2010	used 13kl.	Account up to date.
L Boks	409957	30/04/2010	used 24kl.	Account up to date
K Makkatella	411145	30/04/2010	used 32kl.	Account up to date.
EA Witbooi	626937	30/04/2010	used 35kl.	Account up to date.
EMK Love	234175	30/04/2010	used 17kl.	Account up to date.

The indigent debtors are not restricted for usage of water increasing the amount of bad debts.

Internal control deficiency

Leadership: Oversight Responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

70

Management response

Name:

Position:

Date:

Auditor's conclusion

CASH AND CASH EQUIVALENTS

32. Cashier Statements are not signed by Head Cashier

Audit Finding

During the walkthrough tests performed for cash and bank it was found that:

- Head cashiers do not sign the reconciliation sheets completed by the cashiers as proof of review of deposits.
- Reconciliation sheet of R Basson dated 30/11/2009, R24859.90 was not signed by the head cashier.

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning. Non-compliance with cash management and investment policies and procedures by employees. The CFO did not monitor that the cashiers comply with the Cash management and investment policies and procedures.

Receipts are not accurately and completely recorded.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Head cashiers must sign reconciliation sheets as proof of review of deposits.

Management response

Controls will be implemented to ensure that the daily reconciliation sheets are signed by the head cashier.

Mr L.J. Bruwer

Acting Municipal Manager

5 November 2010

Name:

Position:

Date:

Auditor's conclusion

The implementation of these controls will be followed up during the next audit.

STATUTORY FUNDS

33. Housing Development Fund Journals

Audit Finding

Journals were processed without the required delegation of authority as Mubesco Africa (Pty) Ltd compiled and processed all journals associated with the housing development fund.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over financial reporting and internal control, which could result in unauthorised or incorrect journals could be processed to the general ledger.

Recommendation

Management should insure that proper delegation of authority is implemented with regards to the compiling and processing of journals, and especially a review function with regard to journals being processed by consultants.

Management response

Name:

Position:

Date:

Auditor's conclusion

LONG-TERM LIABILITIES

34. Journals

Audit Finding

An authorisation signature could not be found for the following journal entries:

- 4271 (reallocation of loan payments) R 379 076,85
- 4278 (interest on loans processed) : R1 569 229,89

It could therefore not be confirmed whether the journal entries were reviewed for validity and accuracy before processing.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

All journal entries must be signed in the appropriate field to indicate authorisation of the journal for processing and as proof of inspection of supporting documentation.

Management response

I am in agreement with the finding. Corrective actions will be taken to correct the finding.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Auditor's conclusion

The corrective action will be followed up during the next audit.

EMPLOYEE COSTS

35. Comparison between salary structure and Bargaining Council

Audit Finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) states: "the accounting officer must take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

The following employee's were not paid in accordance with an approved employment contract and applicable salary level:

JT Spamla salary level 12 paid as level 15
PCC Jaars salary level 18 pay as level 15

Level 12: R 49 804 - R 77 232
Level 15: R 55 080 - R 57 264
Level 18: R 47 820 - R 49 464

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

Recommendation

The latest contracts of employment/ salary scales should be placed on the employee's personnel files.

Employees should be remunerated in accordance with the applicable bargaining council agreements.

Management response

Name:
Position:
Date:

Auditor's conclusion

36. Provision for leave overstated

Audit Finding

Section 3.1.3.3 of SALBC Main Collective Agreement states the following:

'Notwithstanding the provisions of clause 7.3.2 above, an employee is entitled to retain a maximum of forty-eight (48) days of accrued leave.'

The provision for leave is overstated as the leave provision is calculated using balances in excess of 48 days for certain employees.

In addition, instances were found where the annual leave balances were incorrect due to the fact that the attendance register is not reconciled to leave records. All days absent from work, as reflected in register, are not recorded on the system.

The projected difference of 12 employees selected, over all of 372 employees of the municipality. $R11\,000,11 / 12 \times 372 =$ overstatement R341 003,41 in respect of note 7 to the financial statements, current employee benefits – staff leave. The provision presently disclosed amounts to R1 955 109.

See next page details of calculation.

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

Reliance is placed on the system generating leave information without taking into account the restrictions created by applicable legislation.

Recommendation

- Leave records should be reconciled to other available information, e.g. attendance registers,
- Policies should make provision for the capturing of leave forms in a timely manner,
- The system should be provided with parameters limiting the amount of leave days to 48 or accumulated leave should be manually adjusted so that the 48 day limit is not exceeded.

Management response

Name:

Position:

Date:

Auditor's conclusion

Management must investigate the entire population to determine the impact of other possible errors on the leave provision balance.

37. Authorisation for deductions

Audit Finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) states: "the accounting officer must take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

Proof of authorisation of deductions was not found after and inspection of salaries and the employee files. The following serve as examples:

No	Details	Month	Deduction not authorised
1	L Botha-Steyn	Jul	Key Health
2	MJ Keyster	Jul	Bonitas, Insurance, Sundry Deductions
3	A Kotze	Aug	Services, Property tax
4	WET van der Westhuizen	Aug	Bonitas, Sanlam
5	WJ Wuim	Aug	Telephone, Services, Bond, Boncomprehensive
6	E van der Westhuizen	Aug	Insurance
7	ES Don	Sep	Insurance, Services, Sundry Deductions
8	RL Flink	Sep	Insurance
9	DA Flink	Sep	Insurance, Services
10	JR Dixon	Sep	Insurance, Services, Advance,
11	SC Sauls	Oct	Services, Sundry deductions
12	G Links	Oct	Insurance, Services, Sundry Deductions
13	LM Prinsloo	Oct	Insurance, Services
14	GD Ruiters	Nov	Insurance
15	Y Cloete	Nov	Telephone, Insurance, Sundry Deductions
16	LS Bock	Nov	Bonitas, Insurance
17	SC Adriaan	Nov	Insurance, Services, Sundry Deductions
18	J Jacobs	Dec	Insurance, Services, Sundry Deductions
19	SC Kearns	Dec	Telephone, Services, Bond
20	G Diergaardt	Dec	Services, Sundry Deductions
21	BC van Rooyen	Jan	Insurance, Sundry Deductions
22	T Swartz	Jan	Key Health, Insurance, Sundry Deductions
23	JI Swartz	Jan	Bonitas, Telephone, Insurance, Services, Rent House, Sundry deductions
24	JE Claasens	Feb	Insurance, Services, Sundry Deductions
25	W Conradie	Feb	Bonitas, Bond
26	LJ Bruwer	Feb	Key Health, Telephone, Insurance, Services
27	N Fortuin	Feb	Insurance, Services
28	A Vernard	Mar	Insurance, Services, Bond
29	BJ Kordom	Mar	Insurance, Services, Sundry Deductions
30	HE Daniels	Mar	Bonitas, Insurances
31	J Mohammed	Apr	Insurance, Services, Sundry Deductions
32	JT Spamla	Apr	Insurance
33	PCC Jaars	May	Insurance, Sundry
34	A Cilliers	May	Insurance
35	EM (Liefie) van Wyk	May	Insurance
36	JI Swartz	Jun	Bonitas, Telephone, Insurance, Services, Rent House, Sundry deductions
37	EJ Beukes	Jun	Insurance, Sundry Deductions
38	F Mwambu	Jun	Insurance, Services, Sundry Deductions

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Requests for deductions are not done in writing. Written requests are not placed on the personnel files.

Recommendation

Proof of authorisation of deductions should be placed on file,
Check of employee files to ensure that all compulsory documentation are kept on file or copy of authorization

Management response

Name:

Position:

Date:

Auditor's conclusion

38. Leave administration

Audit Finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) states: "the accounting officer must take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

During the audit of leave it was found that:

- the leave days applied on the application form of Me HM Meyer differs from the total days captured into the system and when recounted it differs from both (21/12/2009-14/01/2010).
- annual leave days accrued exceed 48 days for A Links, J Syster and ES Joseph on year-end, balances 63, 48.21 and 58.57, respectively
- forms for unpaid leave could not be found on the personnel file for the employees under review for 27/07/2009 (JC Kotze, C du Toit)
- Sick leave was taken according to the attendance register, but no forms were on the file and leave register was not correctly updated (A Kotze for September & October, C du Toit for July, WJ Wuim for March)

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Leave forms are not filed centrally, and copies placed on the personnel file.

Recommendation

- For proper control, make use of pre-numbered application forms for leave
- Monthly review of leave taken, compare attendance register to leave taken captured on system and make sure that for all days employee was absent there are an authorized leave application form filed on file
- Review leave provision made at year end
- Monitor of overtime and that excessive overtime must not be allowed
- An overtime policy that is in accordance with BCEA should be developed and implemented in all the departments under the Municipality.
- Management should ensure that adequate control measures are implemented regarding overtime claims, the payment thereof and the filing of supporting documentation

Management response

Name:

Position:

Date:

Auditor's conclusion

39. Overtime

Audit finding

The Basic Conditions of Employment Act, Chapter 2 - Regulation of working time states the following:

“an employer may not require or permit an employee to work”

- (a) Overtime except in accordance with an agreement,
- (b) More than ten hours' overtime a week

Over- and standby time exceeded 10 hours a week for JCA Nicholson, E Arendse, JC Stevens (jnr), EP Simit, DD Pula, L Kolose, P Galant, EJ Beukes,

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Checks are not performed to ensure that overtime does not exceed ten hours per week.

Recommendation

- Monitor of overtime and that excessive overtime must not be allowed,
- Management should ensure that adequate control measures are implemented regarding payment of overtime claims and the filing of supporting documentation.

Management response

I am [not] in agreement with the finding [and supply the following/attached information in support of this]:

Name

Position

Date

40. Completeness of employee files

Audit Finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) states: "the accounting officer must take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

The advertisement for the post of Senior Clerk (Personnel) had not been placed on the file of C Le Fleur, appointed to the post on 10/05/2010, and could not be presented for audit purposes.

Internal control deficiency

Financial and performance management (Proper record keeping and record management) - The documents supporting the above are properly filed and easily retrievable.

Requested information was not available and supplied without any significant delay.

Pertinent information is not retained and filed to ensure that a proper audit trail exists.

Recommendation

Documents should be kept and filed to ensure that an adequate audit trail exists.

Management response

Name:

Position:

Date:

Auditor's conclusion

41. Overtime in excess of 30% of gross income

Audit Finding

The following employees overtime received for July 2009 is more than 30% of their gross income:

No	Employee	Employee Number	Total Overtime	Gross Income	Percentage
1	JCA Nicholson	023	7 925,60	10 240,00	77,40%
2	E Arendse	1752	1 270,73	3 904,00	32,55%
3	JC Stevens (Jnr)	227	1 242,07	3 730,00	33,30%
4	EP Smit	276	2 819,82	3 730,00	75,60%
5	DD Pula	283	4 166,17	9 991,00	41,70%
6	L Kolose	285	1 334,24	4 318,00	30,90%
7	P Galant	288	3 567,85	8 405,00	42,45%
8	EJ Beukes	324	1 311,06	3 688,00	35,55%

Internal control deficiency

Leadership (Oversight responsibility) - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

No policy in place in accordance with BCEA regarding the amount that can be claimed for overtime based on basic salary.

Recommendation

An overtime policy that is in accordance with BCEA should be developed and implemented in all the departments under the Municipality.

Management should ensure that adequate control measures are implemented regarding overtime claims, the payment thereof and the filing of supporting documentation. Where overtime in excess of 30% is unavoidable, adequate reasons should be documented to motivate the instance.

Management response

Name:

Position:

Date:

Auditor's conclusion

VALUE ADDED TAX

42. VAT Invoices

Audit Finding

(a) Suppliers VAT registration numbers did not appear on the following tax invoices, as required by section 20(4)(b) of the VAT Act, 1991 (Act No. 89 of 1991):

No	Supplier	Date	Invoice	Amount (R)
1	JJR Warrior Trucks	11/06/2009	101350	42 507,80
2	JJR Warrior Trucks	22/01/2010	155	8 762,61
3	JJR Warrior Trucks	19/04/2010	159	6 774,16

(b) The municipality's VAT registration number did not appear on the following invoices exceeding R3 000, as required by section 20(4)(c) of the VAT Act, 1991 :

No	Supplier	Date	Invoice	Amount (R)
1	Lasting Impressions Trading 112 CC	09/07/2009	202	
2	JJR Warrior Trucks	11/06/2009	101350	42 507,80
3	Lasting Impressions Trading 112 CC	07/09/2009	229	19 880,00
4	Barloworld Equipment	28/08/2009	920310401	13 402,94
5	Vanrhynsdorp Herstelwerke BK	24/08/2009	43848	20 430,54
6	Barloworld Equipment	16/09/2009	920314017	44 244,63
7	Vanrhynsdorp Herstelwerke BK	27/10/2009	43987	18 403,00
8	Barloworld Equipment	23/10/2009	920320867	12 409,42
9	Barloworld Equipment	11/11/2009	920324133	10 670,12
10	Barloworld Equipment	01/12/2009	920328108	12 948,49
11	Vanrhynsdorp Herstelwerke BK	30/04/2010	45137	12 177,95
12	Landis & Gyr (Pty) Ltd	26/06/2010	5067005523	15 389,99

Internal control deficiency

Invoices are not adequately reviewed before payment is made to ensure compliance with VAT legislation.

Recommendation

The VAT registration number of suppliers must appear on tax invoices. If not present, VAT should not be paid to the supplier. Furthermore, the municipality's VAT registration number must also appear on tax invoices exceeding R3 000.00.

Management response

Name:

Position:

Date:

Auditor's conclusion

43. VAT Journal authorisation

Audit Finding

During the audit of VAT journals and adjustments the following was noted :

- Journals 4025, 4045 and 4076, totalling R3,7 million, were not signed by the appropriate official as proof of authorisation.
- Journal 4169, to the value of R836 824,21 did not have the date recorded on it.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning. This could result in unauthorised adjustments to the VAT control account and adjustments being processed in the wrong period.

Recommendation

Journals should be signed by the appropriate official as proof of authorisation.
Dates should be recorded on journals.

Management response

I am in agreement with the finding. Corrective actions will be taken to correct the finding.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Auditor's conclusion

The corrective action will be followed up during the next audit.

PROPERTY, PLANT AND EQUIPMENT

44. Journals

Audit Finding

Journal delegations:

Section 79(1) (a) and 3 of the MFMA states that:

“(1) The accounting officer of a municipality –

must, for the proper application of this Act in the municipality’s administration develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality’s financial administration;

(3) A delegation in terms of subsection (1)-

(b) must be in writing

Journals no’s 4122 and 4302 were process on year-end and were approved. However, we could not determine if the appropriate level/delegation approved the journals as no delegation of authority exists on the delegations.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over financial reporting, internal control and compliance with laws and regulations regarding processing of journals.

Recommendation

Supporting documentation should be attached to all journals processed.

Management must ensure that delegations for the authorisation of journals are compiled and implemented, to give effect to the intention of compliance with section 79.

Management response

Name:

Position:

Date:

Auditor’s conclusion

45. Physical verification of assets

Audit Finding

During the physical verification we noted the following control weaknesses regarding the assets:

Based on audit work performed it was found that the following assets were not bar-coded:

- National Lugversorger
- Mikrogolf

With inspection of assets it was found that the vehicle: Warrior Watertrok (CV2095) was not in a working condition. No list could be supplied by management with regards to assets not in a working condition, to inspect other possible overstatements of assets in the financial statements. It was also detected that the asset register does not disclose the condition of the assets included.

Physical assets inspected did not compare with description in the asset register:

Asset Number	Description	
	Asset Register	Inspection
06032/R0606	Ford Ranger Bakkie (CV15478)	Ford Ranger Bakkie (CV15628)
06031/R0605	Ford Ranger Bakkie (CV15628)	Ford Ranger Bakkie (CV15478)
04983	Samsung SF-565P Faksmasjien	Printer HP Laser 3050

Internal control deficiency

The accounting officer does not exercise oversight responsibility over financial reporting and internal control in respect of the maintaining of the asset register.

Recommendation

It is recommended that all assets purchased should be collected at a central point and bar-coded where practical to insure that all mobile assets are bar-coded.

Damaged assets should be inspected for a possible impairment adjustment.

Management should adjust asset register to compare with correct asset description.

Management response

Name:

Position:

Date:

Auditor's conclusion

EXPENDITURE

46. Expenditure overstatement

Audit finding

According to the framework for preparation and presentation of financial statements, the following is stated in paragraph 98 b as the definition of expenses:

The elements of revenue and expenses are defined as follows:

a. Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

b. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

(i) The following payment documentation was not on file:

Nr	Supplier	Date	Reference		Supplier VAT Registration Nr	R
			Invoice	Cheque		
1	MVS Coastal		3108	1018591	4850217722	24,657.89

(ii) The contract for the following payment was not available for audit purposes and therefore the price could not be confirmed.

Nr	Supplier	Reference		Supplier VAT Registration Nr	R
		Invoice	Cheque		
1	Swanepoel & Swanepoel	KS/MVN/M408	1020444	4960113167	1,263.16

(iii) The output VAT for the following transaction was incorrectly calculated:

Nr	Supplier	Reference		Supplier VAT Registration Nr	R
		Invoice	Cheque		
2	BJ Barnard	0010	1020453	4280116429	1,517.34

(iv) The following transaction was incorrectly classified:

Nr	Supplier	Reference		Supplier VAT Registration Nr	R
		Invoice	Cheque		
Landis & Gyr (Pty) Ltd	26/06/2010	5067005340	1022848	4020147973	15,389.99

Internal control deficiency

Financial performance and management - Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

Recommendation

The payment documentation and contract that was not on file should be presented for audit purposes.

The incorrect calculation of vat should be corrected.

The incorrect classification of expenditure in the general ledger should be corrected.

Management response

Name:

Position:

Date:

Auditor's conclusion

47. Operating leases

Audit finding

According to GRAP 13, paragraph 48 the following is stated:

“48 Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit.”

During the straight line recalculation of operating leases the following differences were identified:

Operating Lease	Vote Nr	GL	Recalculated	Difference
Libertas Trust	004/075/0241	40,294.70	46,887.12	- 6,592.42
Libertas Trust	010/075/0241	134,803.36	270,131.52	-135,328.16

The municipality bought the Sanlam Building from Libertas trust during the year under review. However the title deed was not yet transferred over in the name of the municipality at year-end. The sales agreement between Libertas Trust and Matzikama Municipality stipulates that the lease agreements remained valid until the transfer of the property to the municipality was completed. Due to the uncertainty with regard to when the transfer of the property will be completed the full lease term as per the lease agreement should be used in the straight line calculation. The municipality’s calculation was done up until May 2010 instead of 30 June 2010.

The related disclosure note for operating leases and asset/ liability will also be understated due to the above

Internal control deficiency

Financial and performance management - The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

Recommendation

The above misstatement should be corrected by management and the financial statements should be adjusted accordingly.

Management response

Name:

Position:

Date:

Auditor’s conclusion

COMPLIANCE WITH LAWS AND REGULATIONS

48. Official Website

Audit Finding

The official website of the municipality could not be viewed to inspect if the information as required by section 75 of the MFMA has been posted on the website, as the website is not in a working order. The municipal manager therefore did not ensure that the website is maintained and regularly updated as required by section 21B(3) of the Municipal Systems Act. The unavailability of the official website again confirmed on the date of this communication.

Internal control deficiency

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Recommendation

Management must ensure that the official website put back in working order and maintained. It must also be updated by all the required information in terms of section 75 of the MFMA and in terms of the Municipal Systems Act.

Management response

Name:

Position:

Date:

Auditor's conclusion

49. Unauthorised, Irregular and Fruitless and Wasteful Expenditure submission of reports

Audit Finding

No MFMA section 32 (4) reports were submitted to the MEC of Local Government or Auditor-General.

Internal control deficiency

Internal control deficiencies are not identified and communicated in a timely manner to those parties responsible for taking corrective action, and to management and the accounting officer as appropriate. The accounting officer did not ensure that the reports were submitted timeously and completely.

Recommendation

The municipal manager must submit the section 32 (4) reports regarding the unauthorised and irregular expenditure for the current year to the MEC, Local Government and Auditor-General.

Management response

Management notes your comments and will implement it.

Mr L.J. Bruwer
Acting Municipal Manager
5 November 2010

Name:
Position:
Date:

Auditor's conclusion

The implementation of corrective action will be followed up during the next audit.

PROCUREMENT AND CONTRACT MANAGEMENT

50. Reasons for deviations not documented

Audit finding

According to the Supply Chain Regulations as published in the Government Gazette, volume 479, no 27636 dated 30 May 2005, the following is stated in section 17(1)(c):

" that if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer;"

The procurement process of the following payments were inspected. It was found that no reasons were documented why less than three quotations were obtained:

Repairs and Maintenance

R2000 to R 10 000 threshold:

No	Supplier	Requisition nr	Payment nr	Amount
1	Weskom	39660	1018875	R 3,175.29

General expenditure

R2 000 to R10 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Flight Centre	41020	1017302	R 9,600.00
2	Supertill CC	44729	1017351	R 7,170.62
3	Belle Ombre	No requisition attached on file.	1017393	R 5,600.00
4	Samoa Hotel	No requisition attached on file.	1018052	R 5,320.00
5	Fujitsu Services Pty (Ltd)	47967	1019731	R 7,898.27
6	ST Martini Gardens	No requisition attached on file.	1021925	R 3,875.00
7	Hollow on the square	No requisition attached on file.	1019321	R 4,280.00
8	Fujitsu Services Pty (Ltd)	No requisition attached on file.	1022501	R 8,388.37
Subtotal				<u>R 52,132.26</u>

R10 000 to R30 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Fujitsu Services Pty (Ltd)	45655	1018220	R 24,596.20
2	Fujitsu Services Pty (Ltd)	50369	1023003	R 16,576.50
3	Payday	50317	1022895	R 10,176.70
4	CAB Holdings	50339	1022477	R 14,211.00
5	Fujitsu Services Pty (Ltd)	49498	1022313	R 15,444.42
Subtotal				R 81,004.82

Grant expenditure

R10 000 to R 30 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Ignite Advisory services	48221	1021375	R 29,588.70

In the absence of documentary evidence for the reasons of obtaining less than three quotations it will result in non-compliance with the above stated legislation.

Internal control deficiency

- Management do not adequately document the reasons for obtaining less than 3 quotations in cases where the supplier is the only supplier.
- *Leadership* -The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that adequate reasons for not obtaining three quotations are adequately documented before the requisition is approved and signed.

Management response

R 2 000 – R 10 000 (repairs and maintenance):

We do not agree with your finding. Reasons were documented on requisition number 39660. Refer to the attached document.

R 2 000 - R 10 000 (general expenditure):

Supertill CC: Reasons were documented on the order. Refer to the attached document.

Fujitsu Services CC: Reasons were documented on the requisitions. Fujitsu Services is the service provider of the financial system. Refer to the attached documents.

Travel and Subsistence:

Flight Centre: The Council enquires quotations via internet for Air Transport. They only allow flights via economical class.

Bella Ombre, Samoa Hotel, St Martini Gardens and Hollow on the Square: The Council pay subsistence according to three star rates. Internet or telephonic quotations are obtained and the hotel/guest house should be near the conference.

R 10 000 – R 30 000:

Fujitsu Services (Pty) Ltd: We do not agree with your finding. Reasons were documented on the requisitions. Refer to the attached documents.

Payday: We do not agree with your finding. Reasons were documented on the requisitions. Refer to the attached documents.

Cab Holdings: We do not agree with your finding. Reasons were documented on the requisitions. Refer to the attached documents.

Ignite: We do not agree with your finding. Reasons were documented on the requisitions. Refer to the attached documents.

Auditor's conclusion

Management's response and supporting evidence is noted, although it is quite obvious that some of the reasons were documented at a later stage and not at the time of the procurement. Steps should therefore be taken to ensure that all reasons for deviations are documented at the time of procurement to prevent similar queries in future.

51. Tax Clearance Certificates

Audit finding

According to the Supply Chain Regulations as published in the Government Gazette, volume 479, no 27636 dated 30 May 2005, the following is stated in section 13(b) with regard to the submission of a valid tax clearance certificate with a quotation or a bid:

Section 13(b):

" ... has authorised the municipality or municipal entity to obtain a tax clearance certificate from the South African Revenue Services that the providers tax matters are in order; and"

The following payments were inspected and a copy of a valid tax clearance certificate was not attached to the payment documents on file:

Repairs and maintenance:

No	Supplier	Requisition nr	Payment nr	Amount
1	WCC Cables	43756	1017802	R 18,059.88
2	Nissan	44863	1018012	R 24,657.85
3	Vanrhynsdorp Herstelwerke	45803	1018685	R 23,290.82
4	Vanrhynsdorp Herstelwerke	Unknown	1018988	R 20,979.42
5	JCB Kemach	48680	1021717	R 15,979.13
6	Bandkorp	50605	1022557	R 19,600.00
7	Landis Gyr	50364	1022848	R 17,544.59
8	WCC Cables	49959	1022872	R 29,745.45
9	Barloworld Equipment	48192	1022879	R 29,717.47
10	Brand Nissan	48758	1022935	R 11,978.55
11	Landis and Gyr	50381	1022848	R 39,852.10
12	JJR Warrior Trucks	44233	1017580	R 48,458.89
13	Barloworld equipment	46348	1018892	R 68,025.03
14	Barloworld equipment	45790	1019049	R 31,770.50
15	Fujitsu Services Pty (Ltd)	51114	1023003	R 316,509.74
Sub total				R 716,169.42

General expenses

No	Supplier	Requisition nr	Payment nr	Amount
1	CAB Holdings	44799	1017636	R 27,000.00
2	C Cloete Taxis	43993	1018967	R 19,500.00
3	CAB Holdings	47986	1019802	R 18,779.70
4	CAB Holdings	48477	1021033	R 27,000.00
5	CAB Holdings	49445	1021687	R 12,227.30
6	CAB Holdings	49457	1021909	R 28,800.00
7	Fujitsu Services Pty (Ltd)	50369	1023003	R 16,576.50
8	Landis and Gyr	50364	1022848	R 17,544.59
9	Fujitsu Services Pty (Ltd)	49498	1022313	R 15,444.42
10	Fujitsu Services Pty (Ltd)	45602	1017910	R 152,922.19

No	Supplier	Requisition nr	Payment nr	Amount
11	Fujitsu Services Pty (Ltd)	48407	1020269	R 71,956.80
Sub total				R 407,751.50

Grant Expenditure

No	Supplier	Requisition nr	Payment nr	Amount
1	CK Rumboll and Venotte	43961	1019218	R 42,180.00
2	Chennels Albertyn	47990	1020061	R 37,910.68
3	Fujitsu Services Pty (Ltd)	47972	1021712	R 50,561.20
Sub Total				R 130,651.88

In the absence of a valid tax clearance at the time of procurement, the above will result in irregular expenditure of R 1 254 572.80.

Internal control deficiency

Valid tax clearance certificates are only filed with the payment for selected suppliers resulting in inadequate documentary evidence to prove compliance with the above stated legislation.

Leadership - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that tax clearance certificates should be attached to all payment documentation before payment is made and authorised.

Management response

We do not agree with your finding.

Hereby attached the tax clearance certificates for all the suppliers as listed in the above query.

Auditor's conclusion

A tax clearance certificate for CK Rumboll and Vennote has not been submitted. Management should, however, ensure that these are attached to payment documentation in future.

52. Restricted suppliers list

Audit finding

According to the Supply Chain Regulations as published in the Government Gazette, volume 479, no 27636 dated 30 May 2005, the following is stated in section 38(1)(c) and 14(1)(c):

Section 14(1)(c):

"A supply chain management policy must -

disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business"

Section 38(1)(c):

"Combating of abuse of supply chain management system:

A supply chain management policy must provide measures for the combating of abuse by the supply chain management system and must enable the accounting officer -

to check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector; "

The following payments were tested for audit purposes. It was found that there was no evidence on file that the National Treasury's database was consulted prior to awarding any contract :

Repairs and maintenance

R2 000 to R10 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Weskom	39660	1018875	R 3,175.29
2	Nashua	43991	1019597	R 5,089.47
3	Bandkorp	47211	1019215	R 7,921.05
4	WCC Cables	43793	1018916	R 7,895.00
5	Bandkorp	48038	1020040	R 6,900.00
6	JJR Warriors	47871	1020083	R 8,762.61
7	Kemach JB	44689	1020628	R 7,164.68
8	JJR Warriors	49227	1021910	R 7,722.54
9	Weskus Meganisasie	49685	1022033	R 5,752.78
10	Lutzville Motors and Bande	50019	1022516	R 9,359.40
11	Metropolitan Government Systems	50361	1022581	R 6,640.50
Subtotal				R 76,383.32

R 10 000 to R 30 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Barloworld	45730	1018191	R 13,402.94
2	Lasting Impressions	43755	1017407	R 24,943.20

No	Supplier	Requisition nr	Payment nr	Amount
3	Brand ford Motor Group	44837	1017730	R 10,292.49
4	WCC Cables	43756	1017802	R 18,059.88
5	Abries automative engineering	44859	1017908	R 11,135.52
6	Nissan	44863	1018012	R 24,657.85
7	Lasting impressions Trading 112	43797	1018045	R 22,663.20
8	Vanrhynsdorp Herstelwerke	44585	1018249	R 10,590.39
9	Combined Systems	46230	1018673	R 10,658.59
10	Vanrhynsdorp Herstelwerke	45803	1018685	R 23,290.82
11	Abries automative engineering	46390	1019416	R 18,096.36
12	Vanrhynsdorp Herstelwerke	n/a	1018988	R 20,979.42
13	Vredendal Trekkeronderdele	46327	1019445	R 11,235.71
14	JJR Warrior Trucks	47844	1019511	R 8,559.88
15	Barloworld Equiptment	46383	1019563	R 12,948.49
16	Barloworld Equiptment	47829	1020076	R 12,948.49
17	Barloworld Equiptment	48624	1021125	R 11,619.70
18	JCB Kemach	48680	1021717	R 15,979.13
19	Brand Nissan	49207	1021732	R 14,470.91
20	Barloworld Equiptment	48161	1022068	R 18,381.03
21	Vanrhynsdorp Herstelwerke	48385	1022174	R 13,882.86
22	Barloworld Equiptment	49246	1022490	R 12,572.44
23	Bandkorp	50605	1022557	R 19,600.00
24	Landis Gyr	50364	1022848	R 17,544.59
25	WCC Cables	49959	1022872	R 29,745.45
26	Barloworld Equiptment	48192	1022879	R 29,717.47
27	Brand Nissan	48758	1022935	R 11,978.55
Subtotal				R 449,955.36

R30 000 to R 200 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Landis and Gyr	50381	1022848	R 39,852.10
2	JJR Warrior Trucks	44233	1017580	R 48,458.89
3	Barloworld equiptment	46348	1018892	R 68,025.03
4	Barloworld equiptment	45,790	1019049	R 31,770.50
5	Transtech	48740	1022374	R 60,120.00
Subtotal				R 248,226.52

Greater than R200 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Fujitsu Services Pty (Ltd)	51114	1023003	R 316,509.74

General expenses:**R2 000 to R10 000 threshold**

No	Supplier	Requisition nr	Payment nr	Amount
1	Flight Centre	41020	1017302	R 9,600.00
2	Supertill CC	44729	1017351	R 7,170.62
3	Belle Ombre	No requisition attached on file	1017393	R 5,600.00
4	Samoa Hotel	No requisition attached on file	1018052	R 5,320.00
5	Fujitsu Services Pty (Ltd)	47967	1019731	R 7,898.27
6	ST Martini Gardens	No requisition attached on file	1021925	R 3,875.00
7	Hollow on the square	No requisition attached on file	1019321	R 4,280.00
8	Fujitsu Services Pty (Ltd)	No requisition attached on file	1022501	R 8,388.37
Subtotal				R 52,132.26

R10 000 to R30 000 Threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	CAB Holdings	44799	1017636	R 27,000.00
2	CAB Holdings	46225	1018499	R 14,934.40
3	C Cloete Taxis	43993	1018967	R 19,500.00
4	Fujitsu Services Pty (Ltd)	45655	1018220	R 24,596.20
5	CAB Holdings	47986	1019802	R 18,779.70
6	CAB Holdings	48477	1021033	R 27,000.00
7	CAB Holdings	49445	1021687	R 12,227.30
8	CAB Holdings	49457	1021909	R 28,800.00
9	CAB Holdings	49489	1022131	R 14,277.90
10	Fujitsu Services Pty (Ltd)	50369	1023003	R 16,576.50
11	CAB Holdings	51116	1022936	R 12,733.70
12	Payday	50317	1022895	R 10,176.70
13	Landis and Gyr	50364	1022848	R 17,544.59
14	CAB Holdings	50339	1022477	R 14,211.00
15	Fujitsu Services Pty (Ltd)	49498	1022313	R 15,444.42
Subtotal				R 273,802.41

Threshold R30 000 to R200 000

No	Supplier	Requisition nr	Payment nr	Amount
1	Fujitsu Services Pty (Ltd)	45602	1017910	R 152,922.19
2	Fujitsu Services Pty (Ltd)	48407	1020269	R 71,956.80
Subtotal				R 224,878.99

Internal control deficiency

- On inquiry from management it was stated that consultation of National Treasury database was not implemented as part of the procurement process at the Municipality. *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should send an email *restrictions@treasury.gov.za* for every recommended bidder as stated in National Treasury MFMA circular 46 dated 17 March 2008. Evidence of this email should be placed on file as audit evidence.

Management response

A supply chain management policy must provide measures for the combating of abuse by the supply chain management system and must enable the accounting officer -

to check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector; "

Section 38(1)(c) of the SCM Regulation refers to Contracts. Contracts are awarded if the total rand value exceeds R 200 000. Enquiries were done on all contracts. In the above mentioned query only Fujitsu's amount exceeded R 200 00. Fujitsu is the service provider of the financial system of the municipality and can therefore not be restricted to supply technical support.

During inspection of the National Treasury's database we found that none suppliers/agents were listed as restricted bidders. Base on the fact that no supplier/agent was listed we ensured that it was not prohibited to do business with our suppliers/agents.

Auditor's conclusion

The auditor's interpretation of the above legislation is that the checking of the database applies to all procurement above R2 000. Even though the above suppliers were not on the NT database, the municipality should implement controls to check the database before awarding a bid. Evidence of this should be placed on file.

53. No requisitions on file

Audit finding

The following payments were selected for testing and had no requisitions attached to the payment documentation:

General expenditure

R2 000 to R10 000 threshold

No	Supplier	Requisition nr	Payment nr	Amount
1	Belle Ombre	No requisition on attached on file.	1017393	R 5,600.00
2	Samoa Hotel	No requisition on attached on file.	1018052	R 5,320.00
3	ST Martini Gardens	No requisition on attached on file.	1021925	R 3,875.00
4	Hollow on the square	No requisition on attached on file.	1019321	R 4,280.00
5	Fujitsu Services Pty (Ltd)	No requisition on attached on file.	1022501	R 8,388.37
Subtotal				<u>R 27,463.37</u>

In the absence of the requisitions there would not be documentary evidence proving the need for the procurement and that the quotations chosen is the most economical.

Internal control deficiency

- There is inadequate management review in order to ensure that all relevant documentation is attached when the payment is authorised.
- *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that all documentation is attached when payment is authorised.

Management response

Travel and Subsistence:

Bella Ombre, Samoa Hotel, St Martini Gardens and Hollow on the Square: The Council pays subsistence according to three star rates. Internet or telephonic quotations are obtained and the hotel/guest house should be near the conference.

R 2 000 – R 10 000:

Fujitsu Services (Pty) Ltd: We do not agree with your finding. Reasons were documented on the requisitions. Refer to the attached documents.

Auditor's conclusion

There was only a requisition for Fujitsu submitted as part of the supporting documentation. No supporting documentation was submitted for travel and subsistence. This control weakness must be addressed.

54. Controls over banking details masterfile

Audit finding

According to the Supply Chain Management Regulations, section 41(1) as documented in the Government Gazette dated 30 May 2005 the following is stated:

41 (1) A supply chain management policy must provide for an effective system of risk management for identification, consideration and avoidance of potential risks in the Supply Chain Management system.

Upon inquiry from management about the implementation of controls over changes to the banking details masterfile the following control deficiencies were found:

Changes in banking details are only changed by the Supply Chain management section who places the orders. The payments section does not have access to change the banking details of a supplier. Although there is segregation of duties between the Supply Chain management section and the payment section there is no management review of changes to the banking details of suppliers.

Without adequate authorisation and management review of the banking details masterfile amendments is subject to the risk of fraud.

Internal control deficiency

Controls have not been implemented for changes to the suppliers masterfile amendments. Leadership - The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

Management should ensure that there is adequate management review of amendments to the supplier banking details masterfile.

Management response

An audit trail of all amendments made to suppliers' banking details is available on proMIS.

The municipality will discuss the issue with Fujitsu (service provider of the financial system) to ensure that amendments are implemented on the system. Changes to a supplier's banking details will be authorized by an independent senior official.

Auditor's conclusion

The implementation of the controls will be followed up during the next audit.

55. Risk assessment process

Audit finding

According to the Supply Chain Management Regulations, section 41(1) to 41(2), as documented in the Government Gazette dated 30 May 2005 the following is stated:

“41 (1) A supply chain management policy must provide for an effective system of risk management for identification, consideration and avoidance of potential risks in the Supply Chain Management system.

41 (2) Risk management must include -

- a) the identification of risks on a case by case basis.*
- b) the allocation of risks to a party best suited to manage such risks;*
- c) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;*
- d) the management of risks in a pro - active manner and provision of adequate cover for residual risks; and*
- e) the assignment of relevant risks to the contracting parties through clear and unambiguous contract documentation.”*

Upon inspection of the risk assessment strategy with regard to Supply Chain Management it was noted that the risks identified was not on a case by case basis. Furthermore there was no fraud risks identified which is inherent within any supply chain management unit.

Internal control deficiency

- The municipality does not have the resources to conduct a thorough risk assessment on an annual basis.
- *Governance* - The entity does not have a formal risk assessment process.

Recommendation

- Risk assessments should be conducted annually at the Municipality.
- Risk assessments should focus on the actual supply chain management process and the risks inherent within the process.

Management response

Management notes your comments and will adhere to it.

Auditor's conclusion

This will be followed up during the next audit.

56. Internal Audit activities

Audit finding

Based on inspection of the Internal audit reports it was noted that there was no detailed testing by internal audit on the supply chain management process of the Municipality.

In the absence of detailed testing by the Internal Audit on supply chain management processes internal control weaknesses and non compliance with the relevant legislation cannot be identified.

Internal control deficiency

- The Municipality does not have the resources to conduct detailed testing on Supply Chain Management.
- *Governance* - Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Recommendation

The municipality should capacitate their Internal Audit department so that detailed testing can be performed in different areas within the Municipality.

Management response

Name:

Position:

Date:

Auditor's conclusion

57. Procurement of contracts

Audit finding

According to the Supply Chain Regulations as published in the Government Gazette, volume 479, no 27636 dated 30 May 2005, the following is stated in section 10 and section 36 (1):

"10) A supply chain management policy must provide for an effective system of demand management in order to ensure that the resources required to support the strategic and operational commitments of the municipality or municipal entity are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs of the municipality or municipal entity."

"36)(1) A supply chain management policy may allow the accounting officer –

- a) To dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –*
- i) In an emergency*
 - ii) If such goods or services are produced or available from a single provider only,*
 - iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;*
 - iv) acquisition of animals*
 - v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes, and"*

Fujitsu Services (Pty) Limited:

The following transactions were tested for the above stated supplier:

Supplier	Requisition nr	Payment nr	Amount
Fujitsu Services Pty (Ltd)	51114	1023003	R316 509.70

The contract submitted for audit purposes for the above stated supplier was signed on the 17 September 2010 which is after year end and therefore does not relate to the above stated payment. It is also unclear how the services of Fujitsu Services (Pty) Limited were procured as there are no related tender documents that were submitted for audit purposes. On inquiry from management it was stated that the initial contract was signed before the promulgation of the Supply Chain Regulations in 2005 and therefore did not go through a procurement process. Management also stated that they are the only supplier for this service. It is unclear how the provisions of section 36(1) were applied or whether steps were taken to ratify the procurement with the implementation of the SCM regulations in 2005.

WEC Consulting (Pty) Ltd:

The above stated contractor was used for expenditure during the repairs of the damage caused as a result of the flood. No contract or tender documentation was submitted for audit purposes to date. Feedback regarding the procurement process used has not been submitted to the auditors to date.

Landis and Gyr:

The following transactions were tested with regard to the above stated supplier:

R 10 000 to R 30 000 threshold

Supplier	Requisition nr	Payment nr	Amount
Landis Gyr	50364	1022848	R 17,544.59

R30 000 to R 200 000 threshold

Supplier	Requisition nr	Payment nr	Amount
Landis and Gyr	50381	1022848	R 39,852.10

The maintenance contract for the above stated transactions was submitted for audit purposes. On inquiry from management about the procurement process for the use of the maintenance contract it was stated that the contract was signed before the promulgation of the Supply Chain Regulations in 2005 and therefore did not go through a procurement process. It is unclear why a market analysis was not conducted on possible suppliers for the service after 2005 and how the provisions of section 36(1) were applied or whether steps were taken to ratify the procurement with the implementation of the SCM regulations in 2005.

Internal control deficiency

- Management has not conducted a thorough market analysis for services needed for the municipality.
- *Leadership* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that there is adequate documentation for all procurement processes.

Management response

Name:
Position:
Date:

Auditor's conclusion

LONG-TERM DEBTORS

58. Overstatement

Audit Finding

Section 69 (2) (f) of the MFMA states that:

“(1) The accounting officer of a municipality –

must, ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.

Three of the 20 housing selling scheme loans selected for testing reflected the following balances at 30 June 2010.

Name	Plot	Town	Balance
Maria Makaula	1289	Koekenaap	R3 257.67
Willem Boois	213	Lutzville	R7 373.73
Ellie Miggel	1305	Koekenaap	R3 229.93
TOTAL			R13 861.33

Further inspection of supporting documentation revealed that the Municipality requested the attorneys to cancel the mortgages because the balances were settled by way of subsidies received from the provincial department of housing, however, still included in the long-term debtors as disclosed in note 14 to the AFS.

Our projection of the factual misstatement to the population in respect of long-term debtors disclosed in note 14 in the AFS, is estimated at R29 211.93 which constitutes a likely misstatement.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over financial reporting and internal control regarding the follow-up of long term debtors that should not be included in the balance.

Recommendation

Management must ensure that proper files for all housing selling scheme loans are maintained and that it contains all relevant documentation of loan amortization schedules and contracts with debtors. Management should adjust the balance of the long term debtors with the loans redeemed.

Management response

The AFS will be adjusted.

Auditor's conclusion

Management must investigate the full population to determine the exact extent of the misstatement on long-term debtors..

INFORMATION TECHNOLOGY SYSTEMS

59. Lack of formally adopted IT risk and control framework

Audit finding

During the audit it was identified that an IT risk and control framework had not been adopted and implemented.

The non adoption of an IT risk and control framework could result in the non definition of the departments overall approach to risk and control.

Internal control deficiency

Due to the lack of IT governance framework that ensures that IT delivers value to the municipality and IT risks are managed, the IT risk and control framework had not been documented.

Recommendation

It is recommended that the Beaufort West Municipality should develop and maintain a framework that defines the municipality's overall approach to IT risk and control and that aligns with the IT policy and control environment and the municipality risk and control framework.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided.

60. IT risk assessment not performed

Audit finding

During the audit, it was identified that the IT risk assessment had not been performed. The non performance of an IT risk assessment could result in control deficiencies not being identified in a timely manner thus leading to extended time to resolve the identified issues and decreasing the process of performance.

Internal control deficiency

Due to the lack of IT risk and control framework, that defines the municipalities overall approach to risk and control, the IT risk assessment has not been performed

Recommendation

Assess on a recurrent basis the likelihood and impact of all identified risks, using qualitative and quantitative methods. The likelihood and impact associated with inherent and residual risk should be determined individually, by category and on a portfolio basis.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided.

61. IT risk register does not exist

Audit finding

During the audit, it was identified that the IT risk register does not exist for the monitoring of IT risks. The non establishment of an IT risk register could result in the non identification of events (an important realistic threat that exploits a significant applicable vulnerability) with a potential negative impact on the goals or operations of the department.

Internal control deficiency

Lack of documented IT risk control framework and risk assessment lead non existence of IT register to monitor identified risks

Recommendation

A risk register should be kept on all risk within the IT environment and be prioritised accordingly.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided.

62. Information security policy not documented

Audit finding

During the audit it was identified that the Information Security policy had not been documented.

Without a sound and formally approved security policy, users do not have any rules and procedures to follow in order to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

Internal control deficiency

The formally documented and approved Information Security policy had not been implemented.

Recommendation

The Information Security policy should be documented and approved, in order to manage IT security at the highest appropriate organisational level, so that the management of security actions is in line with business requirements.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided.

63. Information security not delegated to an information security officer

Audit finding

During the audit it was identified that the responsibility for Information Security had not been delegated to an Information Security Officer.

Information security officer roles and responsibilities that are not delegated to a specific individual could result in the lack of coordination, management oversight and direction for both physical and logical aspects of security, including information security.

Internal control deficiency

The municipality had not delegated the responsibility for Information Security to an Information Security Officer.

Recommendation

Manage IT security at the highest appropriate organisational level, so the management of security actions is in line with business requirements.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

64. Non establishment of an operating system (server) baseline policy

Audit finding

During the audit it was identified that the operating system (server) baseline policy had not been documented and approved for the operating systems where the Payday, PROMIS, Cash Focus, Cash Power and Bureau Focus applications reside.

The lack of an approved and standardised configuration increases the risk of operating systems being insecurely configured and vulnerable to compromise. Furthermore, without such standards, accountability cannot be assigned to the administrators who maintain the systems.

Internal control deficiency

An operating security baseline policy does not exist.

Recommendation

An operating system (server) baseline policy should be developed and maintained. The policy should include but not limited to the following:

- policy intent
- roles and responsibilities
- exception process
- compliance approach
- references to procedures
- Standards and guidelines

Their relevance should be confirmed and approved regularly.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

65. Inadequately defined password rules

Audit finding

During the audit it was identified that there were no password rules applicable to application systems and operating systems.

A lack of adequate system account settings in respect of password rules could result in the following:

- If a suitable minimum password length is not enforced, users may choose weak passwords, making it easier for attackers to gain unauthorised access.
- If a maximum password age is not set, passwords may remain unchanged for long periods, increasing the possibility of unauthorised access.
- Poor passwords that are easily guessed may allow unauthorised access.
- If a suitable minimum password age is not set, users can cycle through their passwords, defeating password history settings, and in doing so reuse their passwords.
- If a suitable password history value is not set, users may simply reuse their previous passwords, increasing the possibility that their passwords will be known by others.
- If account lockout is not set, attackers can guess user passwords without the account being locked out and without administrators noticing that attacks are being launched against their servers.

Internal control deficiency

There is no adherence to strong password controls.

Recommendation

It is recommended that good configuration standards be implemented.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

66. Access and logon violations not monitored

Audit finding

During the audit it was identified that the access and logon violations of users on the operating systems and application systems was not being reviewed by the system controller. If access and logon violations are not logged and regularly monitored and printed, unauthorised persons could attempt to gain access to the municipality's systems, which could lead to a loss of data, or unauthorised changes to information.

Internal control deficiency

Due to a lack of operating system (server) baseline policies, a process to review access and logon violations was not in place.

Recommendation

Access and logon violations should be logged and regularly monitored, printed and reviewed by relevant persons.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

67. Lack of a formal documented and approved user account management procedure

Audit finding

During the audit it was identified that there were no formally documented and approved user account management procedure in place for the application systems at the municipality. Without a sound and formally approved user account management procedure, users do not have any rules and procedures to follow in order to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

Internal control deficiency

The municipality did not have a formally documented and approved user account management procedure for the application systems.

Recommendation

It is recommended that a user account management procedure be documented which will address requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges with a set of user account management procedures. Include an approval procedure outlining the data or system owner granting the access privileges. These procedures should apply for all users, including administrators (privileged users) and internal and external users, for normal and emergency cases. Rights and obligations relative to access to enterprise systems and information should be contractually arranged for all types of users. Perform regular management review of all accounts and related privileges.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

68. Non establishment of access request authorisation

Audit finding

During the audit it was identified that authorisation request forms were not completed for granting new users' access to the application systems.

If detailed access request forms are not completed for new users, unauthorised users might gain access to the systems and data. Moreover new users might be assigned access rights and incompatible functions to the systems and data that are not commensurate with their job responsibilities, which would ultimately lead to the data integrity of the system being compromised.

Internal control deficiency

Access authorisation request forms for all new users on the application systems was not completed and approved.

Recommendation

It is recommended that the municipality design a formal authorisation access request form, in order to identify and apply security requirements applicable to the receipt, processing, storage and output of data to meet business objectives, the municipality's security policy and regulatory requirements.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

69. Activities of system controllers not reviewed

Audit finding

During the audit it was identified that the activities of the system controller on the application systems responsible for user creation and maintenance are not reviewed by an independent person.

Notwithstanding the fact that users with controller/admin privileges had full control over systems, when their activities were logged and monitored by an independent user unauthorised activities would not be detected.

Internal control deficiency

The lack of a formally documented and approved user account management procedure for the application systems.

Recommendation

It is recommended that regular management reviews be performed on the activities of administrator/system controller accounts and related privileges.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

70. Validity of access rights on the application systems not reviewed

Audit finding

During the audit it was identified that the user activity on the application systems are not being reviewed on a periodic basis to verify whether their activities are still commensurate with their job description.

Users might have been granted access to functions that are not in line with their job responsibilities, which could lead to data integrity and system being compromised.

Internal control deficiency

Due to the lack of user account management procedures, processes to validate user access rights were not performed.

Recommendation

It is recommended that regular management reviews are performed on all accounts and related privileges to ensure that they are still commensurate with job function/role and required segregation of duties.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

71. Program change management procedure not documented

Audit finding

During the audit it was identified that the program change management procedure for the application systems had not been documented.

Lack of documented and approved program change management procedure might lead to unauthorised changes made to systems, changes made without being properly tested first. There might be a lack of supporting change request documentation for changes made and changes made might not address user requirements.

Internal control deficiency

The lack of an approved change management control procedure, at the municipality.

Recommendation

It is recommended that the IT department set up formal change management procedures to handle in a standardized manner all requests (including maintenance and patches) for changes to applications, procedures, processes, system and service parameters, and the underlying platforms.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

72. Programmers access the production environment

Audit finding

During the audit it was identified that the programmers had access to the production environment to perform code writing in the live environment.

Unauthorised changes are made to systems, changes are made without being properly tested first, there is a lack of supporting change request documentation for changes made and change made do not address user requirements, as a result of programmers making change of which user management might not be aware of.

Internal control deficiency

Programmers access the production environment to make changes to the application systems.

Recommendation

It is recommended that the municipality implement internal control, security and auditability measures during configuration, integration and maintenance of hardware and infrastructural software to protect resources and ensure availability and integrity. Responsibilities for using sensitive infrastructure components should be clearly defined and understood by those who develop and integrate infrastructure components.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

73. Lack of monitoring of programmer activities in production environment

Audit finding

During the audit it was identified that the activities of the programmers in the production environment does not get monitored on the application systems by an independent person. Unauthorised changes are made to systems, changes are made without being properly tested first, there is a lack of supporting change request documentation for changes made and changes made do not address user requirements.

Internal control deficiency

Programmer's who has access to the production environment not being monitored by an independent person.

Recommendation

Manage IT security at the highest appropriate organisational level, so the management of security actions is in line with business requirements.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

74. Program change not formally approved by user management

Audit finding

During the audit it was identified that program changes are not formally approved by user management before migration to the production environment.

Unauthorised changes applied, resulting in compromised security and unauthorised access to corporate information.

Internal control deficiency

Program changes not approved by user management before changes are migrated to the production environment.

Recommendation

User management should approve all change made to the production environment.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

75. Migration of change to production environment not performed by an independent person

Audit finding

During the audit it was identified that the changes made to the application systems were not being migrated to the production environment by an independent person, but by the programmer/vendor.

Increased likelihood of unauthorized changes being introduced to key business systems, failure to comply with compliance requirements and reduced system availability.

Internal control deficiency

Changes migrated to the production environment not performed by an independent person/user management, but by the programmer.

Recommendation

Train the staff members of the affected user departments and the operations group of the IT function in accordance with the defined training and implementation plan and associated materials, as part of every information systems development, implementation or modification project.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

76. Lack of physical control access security policies

Audit finding

During the audit it was identified that there was a lack of physical access security policies for access to the IT environment at the municipality.

The processes might not be aligned with the business objectives leading to physical access violation and data compromises.

Internal control deficiency

Lack of a documented and approved physical access security policies that governance access to the IT environment.

Recommendation

Define and implement procedures to grant, limit and revoke access to premises, buildings and areas according to business needs, including emergencies. Access to premises, buildings and areas should be justified, authorised, logged and monitored. This should apply to all persons entering the premises, including staff, temporary staff, clients, vendors, visitors or any other third party.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

77. Lack of safeguarding of IT equipment and software

Audit finding

During the audit it was identified that there was a lack in the safeguarding of IT equipment and software at the municipality.

This might result in visitors gaining unauthorised access to IT equipment and information and unauthorised entry to secure areas.

Internal control deficiency

The safeguarding of IT equipment and software not performed.

Recommendation

Define and implement physical security measures in line with business requirements to secure the location and the physical assets. Physical security measures must be capable of effectively preventing, detecting and mitigating risks relating to theft, temperature, fire, smoke, water, vibration, terror, vandalism, power outages, chemicals or explosives.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

78. Physical access to sensitive areas outside normal working hours not controlled and monitored

Audit finding

During the audit it was identified that the physical access to sensitive areas such as the computer room was not being controlled and monitored outside normal working hours.

Threats to physical security not identified, increasing vulnerability to security risks, resulting from site location and/or layout. Visitors might gain unauthorised access to IT equipment or information, housed in secure areas.

Internal control deficiency

Lack of physical access control policies that govern access to the IT environment.

Recommendation

Establish appropriate physical safeguards, accounting practices and inventory management over sensitive IT assets, such as special forms, negotiable instruments, special purpose printers or security tokens.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

79. No formal authorisation request forms for physical access

Audit finding

During the audit it was identified that no formal authorisation request forms were completed for access to sensitive areas.

Unauthorised user could gain access to sensitive areas, critical information and the systems housed in the computer room.

Internal control deficiency

No formal authorisation request forms completed for physical access to the municipal building or sensitive areas.

Recommendation

Define and implement procedures to grant, limit and revoke access to premises, buildings and areas according to business needs, including emergencies. Access to premises, buildings and areas should be justified, authorised, logged and monitored. This should apply to all persons entering the premises, including staff, temporary staff, clients, vendors, visitors or any other third party.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

80. Validity of physical access of users to municipality not reviewed

Audit finding

During the audit it was identified that the physical access of users to the municipal building were not being reviewed by an independent person responsible for the physical access control system at the municipality.

Due to no reviews being performed on the access control system to confirm whether employee's current access is commensurate with their job responsibility might result in damage, vandalism or theft to equipment or compromise of critical information. Copying or viewing of sensitive copyright information. This could lead to alteration of sensitive equipment and information and might further result in abuse of data processing resources.

Internal control deficiency

Lack of monitoring users' physical access to the municipal building to ensure user access is commensurate with their job responsibilities.

Recommendation

Establish appropriate physical safeguards, accounting practices and inventory management over sensitive IT assets, such as special forms, negotiable instruments, special purpose printers or security tokens.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

81. Business continuity and disaster recovery plan not documented

Audit finding

During the audit it was identified that business continuity and disaster recovery plan had not been documented.

The Municipality may not be able to recover its operations in the event of a disaster. Unavailability of critical IT resources and prioritisation of services recovery not based on business needs

Internal control deficiency

The business continuity and disaster recovery plan had not been documented.

Recommendation

IT Disaster recovery plan should be developed based on the framework and designed to reduce the impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

82. Lack of backup and retention strategy

Audit finding

During the audit it was identified that the backup and retention strategy had not been implemented

The lack of a backup and retention strategy may lead to an inconsistent process and the possible loss of data.

Internal control deficiency

The backup and retention procedures had not been documented.

Recommendation

Define and implement procedures to maintain an inventory of stored and archived media to ensure their usability and integrity.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

83. Backups not verified and checked for successful completion

Audit finding

During the audit it was identified that backups were not verified and checked for successful completion

If the backups are not checked and verified for successful completion could result in data being lost and not be able to be restored when needed.

Internal control deficiency

The backups are not verified the successful completion.

Recommendation

It is recommended that backups are verified and checked for successful completion.

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

84. Weak password controls and inadequate user account management on the Linux Operating System

An automated security tool (SekChek) was used to analyse the logical parameter settings on the Linux security server. The findings included below are a summary of the most significant weaknesses identified in the SekChek report.

Audit finding

The following default password security parameters have not been changed. Weak password standards are therefore applied to user accounts. Specifically:

- Password change
- Password expiring
- Minimum password
- Login time out interval
- Sleep time for fail login
- Log fail logging
- Default file creation Mask
- Password history: 0
- Password attempts before existing
- Logout attempts before exiting
- Lockout Account not set
- Password complexity

In addition, the following was noted:

- More 79% (97) of usernames have not had their passwords changed in the last 6 months
- Ashrufr and superadm had been assigned UID
- Default accounts had not been disabled.
- The system login script file had a umask setting of 000
- The system contains 540 world-writeable files and directories
- The auditing policy is not enabled
- Several files residing in directories in the system Search Path had world-writeable permissions allocated to them
- 31% (32) of programs have group-writeable permissions and 31% (32) of these have world-writeable permissions
- Telnet was not disabled and was not replaced with SSH
- 10% (12) of usernames are prohibited from accessing your system via FTP and that it had not been disabled
- R-services had not been disabled or secured as these services were located in the systems path
- Network file system has not been disabled
- Port 80 http (www) and port 25 – smpt was running, which are classified as unnecessary or dangerous services
- No reviews are performed on security information that are being logged, such as root logging and failed login

Internal control deficiency

The Operating System security settings are not configured in line with best practice.

Recommendation

The following password controls should be implemented to ensure alignment with best practice security standards:

- Password expiring =1 or greater
- Login time-out interval =60 or less
- Sleep time for fail login =5 seconds
- Maximum password age = 30 days
- Password complexity = enabled to include alpha numeric characters and special character
- Default file creation Mask =0027
- Lockout attempts before existing =3
- Minimum password age should be set to restrict user from cycling passwords
- Password history = 6 months
- Lockout threshold = 3 times

Management response

I am in agreement with the finding and internal control deficiency./ I am not in agreement with the finding / internal control deficiency for the following reasons [and supply the following/attached information in support of this]:

Name:

Position:

Date:

Auditor's responses

Management comments had not been provided, although continuous communication made to solicit the municipality's comments.

ANNEXURE C : ADMINISTRATIVE MATTERS

INVENTORY

85. Fuel losses

Audit Finding

According to paragraph 11 of the draft anti-corruption policy the municipal manager did not take legal recourse to recover the losses. As per discussion with Mr LJ Bruwer (Director of Finance), the fuel losses incurred due to theft was not recovered from the guilty party but was written off against the account of Ebenaezer farms as vehicle expenses amounted to R381.

Therefore the municipality did not comply with paragraph 11 of the draft anti-corruption policy.

Internal control deficiency

The accounting officer does not exercise oversight responsibilities over reporting and compliance with laws and regulations.

Recommendation

Losses due to theft and losses due to leakage, should be recorded as losses in the AFS.

Management response

Name:

Position:

Date:

Auditor's conclusion

86. Cut-off of capturing fuel register on ProMis

Audit Finding

During the testing of cut-off procedures it was noted that the following inventory transactions in respect of the 2009/10 financial year was captured on ProMis in the 2010/11 financial year. Therefore the inventory was overstated with 228 liters amounted to R1 773.84.

Issue date	User	Fuel used per litre
29 June 2010	Plaastrekker/Aubrey	55
30 June 2010	Plaastrekker/Tielie	43
30 June 2010	CV 10619/Barry	108
30 June 2010	CV 16137/Jan Don	22
Total		228

Internal control deficiency

Pertinent information is not identified and captured in a form and time frame to support financial reporting.

Recommendation

Fuel register date on 30 June 2010 must be recorded on Promis on 30 June 2010

Management response

The annual financial statements will be adjusted to include the correct figures.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Name:

Position:

Date:

Auditor's conclusion:

The management response was noted and the corrected AFS will be inspected.

87. Valuation and Accuracy

Audit Finding

1. Details for plot nr 2087 was incomplete in the housing inventory register.
2. Proteastreet 440 and Buitekantstreet 1271 was sold and agreed to substantive documentation, both was plots was still in stock as per register.
3. Difference of R400.00 with Land held for resale register with AFS due to incorrect allocation of interpret services (ACB Payment 1017310).
4. The value of land for resale was calculated incorrectly.

Value per register and general ledger	Value per AFS	Value Recalculated	Difference
R 265 178.01	R 265 178.01	R 264 391.55	R 786.46

The inventory for housing are overstated.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Recommendation

Details for Proteastreet 440 and Buitekantstreet 1271 should be corrected in the housing inventory register.

Value of land held for resale should be adjusted.

Management response

The housing inventory register will be adjusted accordingly. The AFS will be revised to include the correct figures.

Name: L J BRUWER

Position: CFO

Date: 05/11/2010

Name:

Position:

Date:

Auditor's conclusion

The management response was noted and the corrected AFS will be inspected.